Annual Report
VIVAT Schadeverzekeringen NV 2019

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1. Overview

1.1. Key Figures

In € thousands	2019	2018	2017	2016	2015
> Ratios					
Regulatory solvency II VIVAT Schadeverzekeringen	165%[1]	156%	162%	152%	142%[2]
> Profit or loss					
Net premium income	742,969	679,100	644,258	621,100	640,433
Investment income	18,047	21,396	15,847	19,008	22,817
Total income	794,315	712,753	664,903	658,959	664,813
Total expenses	707,756	702,621	659,388	721,839	770,259
Result before tax	**86,559**	**10,132**	**5,515**	**-62,880**	**-105,446**
Tax expense	21,001	495	827	-15,761	-26,528
Net result	**65,558**	**9,637**	**4,688**	**-47,119**	**-78,918**
> Statement of financial position					
Total assets	**1,819,485**	**1,773,909**	**1,814,398**	**1,914,854**	**1,891,813**
Investments	1,594,777	1,556,734	1,567,226	1,635,537	1,614,618
Total equity	**398,831**	**336,575**	**352,253**	**358,000**	**404,839**
Insurance liabilities	1,082,734	1,134,709	1,158,670	1,237,301	1,247,638

1 Regulatory Solvency II ratio is not final until filed with the regulator.
2 Regulatory Solvency II ratio is based on Day 1 figures.

VIVAT Schade and VIVAT Schadeverzekeringen NV

In this annual report, we use the name 'VIVAT Schadeverzekeringen NV' when referring to the company financial statements of VIVAT Schadeverzekeringen NV. For the consolidated financial statements of the insurance business as a whole, we use the name 'VIVAT Schadeverzekeringen' (hereafter: VIVAT Schade).

The VIVAT Schade Report of the Executive Board, as referred to in section 2:391 of the Dutch Civil Code includes the following chapters: Key Figures (chapter 1.1), Message from the Executive Board (chapter 1.2), Organisation (chapter 2), Strategy and Developments (chapter 3) and Corporate Governance (chapter 4), excluding Report of the Supervisory Board (chapter 4.5).

1.2. Message from the Executive Board of VIVAT Schadeverzekeringen NV

Dear stakeholders,

In 2019, VIVAT Schade demonstrated a very good financial performance. Both the Net Underlying Result and Net Result IFRS increased significantly compared to 2018. A continued growth in the Non-life business resulted in a rise of the premium income by 7%. The combined ratio improved to a best-in-class performance of 91.4% as a result of a lower claims ratio, caused by an improvement of the underlying business.

The portfolio growth was visible in all channels. In addition to its significant growth, the Authorised Agents channel showed a very good performance in 2019. The intermediary retail portfolio grew after years of decline and the commercial portfolio grew from € 7.2 million in 2018 to € 12.1 million in 2019: a growth of 68%.

VIVAT Schade put a lot of effort in customer centricity, which resulted in a further improved customer and intermediary satisfaction. We increased our efforts in data collection and analysis to improve the insurance technical cycle. The Dynamic Pricing Programme was implemented, in which data is centralised and more effective methods are used for sophisticated portfolio management. A successful campaign and a new proposition for pet insurance has ensured that Reaal Dier & Zorg is still the market leader in pet insurance.

VIVAT, including VIVAT Schade continues to be a frontrunner in the field of sustainability. This was acknowledged by the Dutch Fair Insurance Guide that awarded VIVAT positive scores on all twenty one defined themes regarding investment policies.

Last but not the least, in June 2019 Anbang has reached a conditional agreement on the sale of VIVAT to Athora with a follow-on sale of the P&C business to NN Schade. Over the past months extensive preparations for the integration and migration were executed, making VIVAT ready for the future. In March 2020, the transaction has been approved by among others the Dutch Central Bank (DNB) and is expected to close early April 2020. NN has also received a declaration of no-objection from DNB in relation to its follow-on acquisition of VIVAT Schade.

We would like to thank our employees and business partners for their dedication and continuous efforts. We are confident that the company is well positioned for the future and that we will continue to offer our customers the high level of service that they are used to.

Amstelveen, the Netherlands, 30 March 2020

The Executive Board of VIVAT Schadeverzekeringen NV

2. Organisation

2.1. About VIVAT Schadeverzekeringen

VIVAT Schadeverzekeringen NV is a Dutch insurance company that offers a variety of insurances. Via its main brands Reaal and nowGo, VIVAT Schade provides property & casualty and disability insurances. VIVAT Schade primarily operates in the Netherlands. In 2019, VIVAT Schade generated € 789 million gross premiums income. VIVAT Schade's main offices are located in Amstelveen and Alkmaar, smaller offices are situated in Utrecht and Rotterdam. The office in Assen was closed in May 2019.

Legal Entity

VIVAT Schadeverzekeringen NV is a public limited company with a two-tier board structure consisting of an Executive Board (EB) and a Supervisory Board (SB).

VIVAT Schadeverzekeringen NV is a 100% subsidiary of VIVAT NV. The members of the Executive Board of VIVAT NV are also the members of the Executive Board of VIVAT Schadeverzekeringen NV. Certain topics are managed and controlled from a consolidated perspective. To the extent applicable, information in this board report is therefore presented on VIVAT level.

VIVAT Schade is a matrix organisation with both product and functional lines focusing on sustainable profitable growth. The governance model of VIVAT Schade reflects this matrix organisation with product lines being sponsored by various board members and functional lines included in the various product line management teams. This allows control at the level of management teams facilitating the product lines, risk and finance to work together at this level. At the level of the board, sponsorship by each EB member of product and functional lines ensure that they are closely involved in the business of the company.

The figure below shows the total structure of VIVAT NV and the position of VIVAT Schade in this structure.

	VIVAT NV				
Legal Entities	SRLEV NV	Proteq Levens-verzekeringen NV	Zwitserleven PPI NV	VIVAT Schade-verzekeringen NV	ACTIAM NV
Product Lines	Individual Life Life Corporate	Individual Life	Life Corporate	Property & Casualty	Asset Management
Brands	Zwitserleven Reaal		Zwitserleven	Reaal Reaal Dier&Zorg nowGO Route Mobiel	actiam

VVIVAT Schadeverzekeringen NV within the structure of VIVAT NV, product lines and brands

2.1.1. Composition of the Executive Board

The Executive Board is responsible for the strategy and management of the company. The Executive Board per 31 December 2019 consisted of the following:

- J.J.T. (Ron) van Oijen – Chief Executive Officer
- Y. (Yinhua) Cao – Chief Financial Officer
- L. (Lan) Tang – Chief Risk Officer
- W.M.A. (Wendy) de Ruiter-Lörx – Chief Commercial Officer
- X.W. (Xiao Wei) Wu – Chief Transformation Officer
- J.C.A. (Jeroen) Potjes – Chief Operating Officer

Changes in the Executive Board

Chief Executive Officer Ron van Oijen has resigned from his position effective 31 January 2020. Tom Kliphuis has been appointed as new Chief Executive Officer, Effective 1 April 2020. During the transition period, Maarten Dijkshoorn is the Supervisory Board member delegate.

On 19 March 2020, VIVAT announced the appointment of three new members to the Executive Board of VIVAT. VIVAT Schade appointed two new members.

In respect of the Executive board of VIVAT Schade, Angelo Sacca will be appointed as Chief Strategy & Commercial Officer and Stefan Spohr as Chief Operating Officer as of the Closing Date.

Xiao Wei (Charlene) Wu, Wendy de Ruiter-Lörx, Lan Tang and Jeroen Potjes will resign from the Executive Board of VIVAT and VIVAT Schade as of the Closing Date.

As a result, the Executive Board of VIVAT Schade will be composed of the following persons:

- Tom Kliphuis – Chief Executive Officer (as per 1 April 2020)
- Yinhua Cao – Chief Financial Officer
- Angelo Sacca – Chief Strategy & Commercial Officer (as per Closing Date)
- Stefan Spohr – Chief Operating Officer (as per Closing Date)

More information on the Executive Board is stated in Chapter 4: Corporate Governance.

2.1.2. Composition of the Supervisory Board

The Supervisory Board is responsible for overseeing the Executive Board's conduct and general business management. It has an important role in the company's governance, by approving or dismissing significant business-related decisions. As of 31 December 2019 the Supervisory Board consists of the following:

- M.W. (Maarten) Dijkshoorn
- M.R. (Miriam) van Dongen
- M. (Ming) He
- K. (Kevin) Shum
- P.P.J.L.M.G. (Pierre) Lefèvre

Changes to Supervisory Board

On 19 March 2020, VIVAT announced that Hanny Kemna, Floris Deckers and Michele Bareggi will be appointed as members of the Supervisory Board of VIVAT and of VIVAT Schade. Miriam van Dongen, Ming He and Kevin Shum will not continue as members of the Supervisory Board of VIVAT and of VIVAT Schade as of the Closing Date.

As a result, the Supervisory Board of VIVAT and VIVAT Schade will be composed of the following persons as of the Closing Date:

- Maarten Dijkshoorn (chairman)
- Pierre Lefèvre
- Hanny Kemna
- Floris Deckers
- Michele Bareggi

More information on the Supervisory Board is stated in Chapter 4: Corporate Governance.

2.1.3. Shareholder

VIVAT Schadeverzekeringen NV is a wholly owned subsidiary of VIVAT NV.
The sole shareholder of VIVAT NV is Anbang Group Holdings Co. Ltd.
Anbang Group Holdings Co. Ltd. is an indirect subsidiary of Dajia Insurance Group Co. Ltd.

In February 2018, the China Banking and Insurance Regulatory Commission (CBIRC) – formerly known as the China Insurance Regulatory Commission (CIRC) – temporarily took over management of Anbang

Insurance Group Co. Ltd. During this interim period, the majority of the shares in Anbang Insurance Group Co. Ltd. were held by the China Insurance Security Fund Co. Ltd. (CISF). In February 2020, CBIRC announced it had ended its two-year period take over.

New Shareholder

On 7 June 2019, VIVAT was informed by Anbang that Athora and Anbang had reached a conditional agreement on the sale of all shares in VIVAT. Athora is to acquire 100% of the shares in VIVAT from Anbang. Thereafter, the shares of VIVAT Schadeverzekeringen NV are to be transferred to NN Schade. On 19 March 2020, VIVAT was informed that Athora received a Declaration of No-objection (DNO) from the Dutch Central Bank (DNB) for the transaction. NN also received a DNO from DNB in relation to its follow-on acquisition of VIVAT Schade. The transaction is expected to close early April 2020.

2.1.4. A Word of Gratitude from the Chairman of the Supervisory Board

“The Supervisory Board of VIVAT Schade is grateful for the dedication and commitment of the departing members of the Executive Board and the Supervisory Board.

Since the acquisition by the current shareholder in 2015, the Executive Board has stabilised the company and led it through an extensive transformation. This resulted in the structurally improved company that VIVAT Schade is today, being a leading, customer-focused and innovation-driven insurance company with a significant lower cost base from which our new owner will benefit going forward.

The departure of the Executive Board members at closing comes at a natural time, following the acquisition by Athora as new shareholder. We wish Xiao Wei (Charlene) Wu, Wendy de Ruiter-Lörx, Lan Tang, Jeroen Potjes and Ron van Oijen every success in the future.

At the same time, the Supervisory Board looks forward to continuing its working relationship with Yinhua Cao. His knowledge of VIVAT Schade is more than helpful in guiding VIVAT Schade through the transition process together with the new members of the Executive Board.

The Supervisory Board also wants to pay its gratitude to Miriam van Dongen, Ming He and Kevin Shum. I consider it an honour and a pleasure to have worked closely with them over the past years in the Supervisory Board. Their contribution has been invaluable to the development of VIVAT Schade.

Lastly, I would like express my sincere thanks to Anbang for their continued support to VIVAT Schade over the past four years and I am looking forward to creating a bright future for VIVAT Schade.

Maarten Dijkshoorn

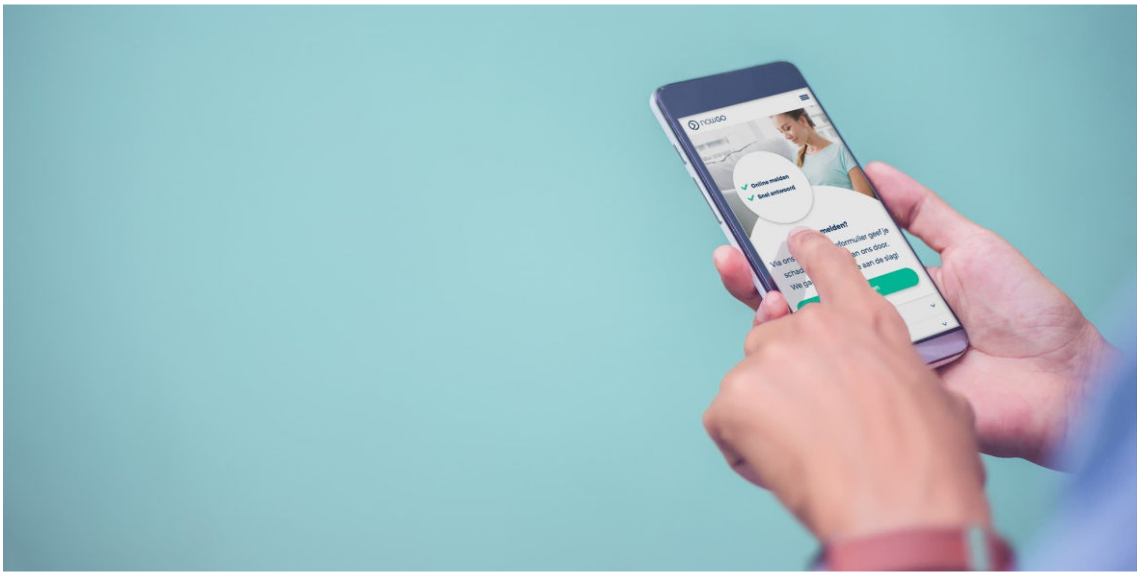
2.2. Our Brands

Reaal

Reaal offers Non-life insurance products. Reaal improves the financial resilience of customers by helping them make well-considered choices about their financial situation.

nowGo

VIVAT’s digital channel nowGo enables customers to buy smart and simple products directly online. Fast, completely tailored and at a competitive price. NowGo focusses on three segments: car, travel and living.



Reaal Dier & Zorg

Reaal Dier & Zorg focusses exclusively on insurance for cats and dogs. With more than twenty years of experience, Reaal Dier & Zorg has become the largest pet insurer in the Netherlands, taking care of almost 80,000 pets.

Route Mobiel

The Route Mobiel roadside assistance service operates in the Netherlands. The company has an extensive network of expert assistance providers, with over 180 bases across the Netherlands.

2.3. Our Product Line

Property & Casualty

The product line Property and Casualty (P&C) offers property, casualty and disability insurances, mainly through the brand Reaal and partly through our online label nowGo.

2.4. Our People

Our employees are key for putting our mission into practice. As a business that serves the financial interests of others, we require a staff that is fully committed to this task. VIVAT is aiming to be a responsible employer by promoting sustainable employability (e.g. vitality, personal development) and sustainable employment relations (e.g. flexibility and diversity). We need to stay a responsible employer in order to continue our strategy and to retain the engagement and commitment of our employees.

In the context of the acquisition process by Athora and NN, VIVAT has considered risks regarding our employees, such as leaving of staff and single points of knowledge, our ability to attract new staff and the commitment of our employees. HR is monitoring these risks closely and will continue monitoring in 2020.

Our Employees in Numbers

The number of (internal and external) employees of VIVAT Schade is 823 at the end of 2019 (2018: 850). Employees of VIVAT Schade are employed by VIVAT. The costs of employees appointed to VIVAT Schade are charged to VIVAT Schade by VIVAT. Hereafter, the key figures are presented of VIVAT as a whole.

Key Figures VIVAT Human Resources

	2019	2018
Number of employees	2,278	2,462
- of which internal	1,904	2,010
- of which external[1]	374	452
Number of FTEs	2,233	2,367
- of which internal	1,885	1,983
- of which external	348	384
Ratio male-female	60%/40%	59%/41%
Female managers	25%	27%
Female members of senior management	20%	25%
Average length of service (years)	13.0	12.6
Average age (years)	44	44
Full-time/part-time ratio	74%/26%	71%/29%
Male/female ratio full-time	72%/28%	73%/27%
Male/female ratio part-time	26%/74%	24%/76%
Ratio permanent/temporary contract	94%/6%	93%/7%
Male/female ratio permanent	60%/40%	60%/40%
Male/female ratio temporary	53%/47%	61%/39%
Training costs (million)	€ 3.9	€ 4.8
Sickness absence	3.3%	3.8%
Percentage of employees that have sworn the bankers oath	97%	97%

[1] Number of external employees is based on contractual hours

More information regarding our staff can be found in section 3.3.2.3 Creating Value via Efficient and Sustainable Business

3. Strategy and Developments

3.1. Trends and Developments

The environment in which VIVAT Schade operates as an insurer is highly regulated and changing fast. Economic and political changes, new technologies and demographic trends are creating new risks and opportunities.

The insurance industry has been operating in a low interest rate environment for many years. This puts pressure on the business model as investment returns are an important source of income for insurers and its customers. VIVAT Schade's parent company VIVAT actively manages its interest rate position by different hedging strategies to mitigate the impact of this low interest rate environment.

More regulation to better safeguard the interests of customers and making the financial sector more resilient are ongoing trends in the financial sector. The Solvency II framework, which determines how much capital an insurance company should hold, is a very important regulatory framework in this context. This framework requires insurers to hold sufficient capital to ensure that policyholders' interests are safeguarded at all times. Products with guaranteed minimum returns have become increasingly expensive.

New technologies have a large impact on our daily life and on society. The increased availability and sharing of data enables companies to improve the way they develop and personalise products and services. Big data, Robotic Process Automation (RPA), Artificial Intelligence, blockchain, and the Internet of Things are some examples of technologies that enable companies to operate faster and more effectively, often at lower costs. VIVAT Schade embraces these new technologies in order to optimise the services to its customers.

Strategic Review and Sales Process

In 2018, VIVAT Schade's parent company VIVAT was informed by its shareholder Anbang Insurance Group Co. Ltd. (Anbang) that it had commenced a strategic review regarding its shareholding in VIVAT. This review continued during the first half of 2019 and resulted in a sales process in which various companies expressed their interest in VIVAT. This process required a great deal of effort from various departments to provide all interested parties with the proper information.

On 7 June 2019, VIVAT was informed by Anbang that Athora and Anbang had reached a conditional agreement on the sale of all shares in VIVAT. Athora is to acquire 100% of the shares in VIVAT from Anbang. Thereafter, the shares of VIVAT Schadeverzekeringen NV are to be transferred to NN Group. In the months that followed, preparations were made to facilitate the sales process, while maintaining business as usual.

On March 19 2020, the acquisition of VIVAT by Athora was approved by the Dutch Central Bank (DNB). NN has also received a DNO from DNB in relation to its follow-on acquisition of VIVAT Schade. These approvals follow earlier clearances including approval from the European Commission for Athora's acquisition of VIVAT and from the Netherlands Authority for Consumers and Markets (ACM) for the acquisition of VIVAT Schade by NN. In addition, the VIVAT works council has rendered its positive advice regarding the

Transaction and the acquisition of VIVAT Schade by NN. The transaction is expected to close early April 2020.

COVID-19 Outbreak

The COVID-19 outbreak in the first months of 2020 is causing significant impact to our society, including VIVAT Schade, its policyholders and other stakeholders like suppliers and employees. Financial markets have been volatile recently with significant decrease in interest rates and equity markets and by credit spreads widening. The Dutch government as well as other governments and central banks are responding with aid packages and further quantitative easing. At the date of the Annual Report of VIVAT Schade the depth and length of these disruptions caused by COVID-19 is unknown.

To assess the impact on VIVAT Schade's financial position and result, we are continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and are taking mitigation actions as necessary. The most significant risks VIVAT Schade facing relate to financial markets and underwriting risks especially related to mortality, morbidity and policyholder behavior.

Given the uncertainties and ongoing developments, as at the date of the Annual Report, VIVAT Schade cannot accurately and reliably estimate the quantitative ultimate impact on our financial position and result from the COVID-19 outbreak. Nevertheless, low interest rates for a long period are likely to impact the profitability of VIVAT Schade's sales depending on the market response, while underwriting results may also be impacted subject to the severity of COVID-19 outbreak.

3.2. Strategy VIVAT Schade

Taking all these developments and trends into account, in 2019, VIVAT Schade has focused on three main goals: Customer Advocacy, Profitable Growth and Cost Discipline. Furthermore, we believe that Corporate Social Responsiblity (CSR) is an integral part of a company's strategy. Therefore, we use three CSR priorities to guide our actions.

Main Goals

Customer Advocacy

In order to best serve customer interests, we set ourselves the goal to develop seamless customer experiences based on customer needs (life events), both in omni-channel sales and (self) service. Due to constantly changing customer needs and ever-changing market developments, we are keen to develop or update a suitable product range, with the principle that products must be simple and easy to understand, transparently priced and are offered on fair terms. In the interest of our customers, we continue to invest in the relationship with our distribution partners.

Profitable Growth

In order to achieve profitable growth for our company, we focus on improving all components of the Combined Ratio in Non-Life. For example, by using data analyses and applying advanced analytics for risk selection and price setting. To achieve optimal levels of capital generation, we search for the right balance between volume and value. In addition, we constantly look at possibilities for re-risking our investment portfolio, while safeguarding a solid solvency ratio.

Cost Discipline

To increase efficiency, we implement digital technologies throughout the value chain. We do this by building state-of-the-art digital sales & (self) service capabilities for all our brands and channels (direct and indirect). Through digitisation of (back-end) processes, we strive for operational excellence, using both proven and innovative technologies such as Customer Relations Management (CRM), Business Process Management (BPM), chatbots and robotics. Finally, we aim for efficiency through digitisation of customer communications. Throughout all these activities, we apply innovative technologies and approaches that we combine with rich and varied data sources to enable cost effective operations, levels of personalisation, long term value creation and new business models that satisfy changing customer needs.

Outcome

We have made good progress on all three of these goals, which contributed to capital generation and an attractive return for our shareholder and for society.

Key Themes

To support our strategy, we use four key themes in our daily business operation: Customer Centricity, Data, Digitalisation and Innovation. More about these themes can be found in chapter 3.4.1.

Integrated CSR Priorities

At VIVAT Schade, CSR is an integral part of our strategy. Based partly on interaction with our stakeholders and the global sustainability agenda of the United Nations – the Sustainable Development Goals (SDGs) – we use these (CSR) priorities to guide our actions:

1. We have a Sustainable Customer Relationship

VIVAT Schade and its brands are not interested in earning fast money. We enter into a relationship with customers and intermediaries for the long term. We do this by developing simple and honest products that can be understood by everyone. Open, accessible and without small print. Hence our mission: *VIVAT makes your financial choices easy.* Increasingly, VIVAT Schade is actively seeking contact with customers to help them take preventive measures to prevent damage. With this priority we contribute to SDG 12: Responsible Consumption and Production.

SDG 12: Ensure sustainable consumption and production patterns.

2. We Invest Responsibly

For VIVAT Schade, creating returns from premiums entrusted to us and ensuring a better world go hand in hand. In both cases we create value for the long term. Through investments and involvement we want to contribute to an inclusive, sustainable world, without making concessions to the financial yield. With this priority we contribute to many if not most SDGs, however for the sake of focus we have put SDG 13: Climate Action central to our efforts with supporting roles for SDG 7, SDG 14 and SDG 15.

SDG 13: Ensure sustainable consumption and production patterns.

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all.

SDG 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

3. We Run our Business Efficiently and Sustainably

VIVAT Schade wants to limit the impact of our own business operations. That is why we take climate-neutral and circular measures in the areas of housing, mobility, energy and waste. In creating partnerships, we are increasingly looking for suppliers and partners that share the same objectives. Lastly, we cannot run our business without vital employees, who are flexible, employable and forward-looking. With this priority we contribute to SDG 8: Decent Work and Economic Growth.

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

SDG 5: Achieve gender equality and empower all women and girls .

SDG 10: Reduce inequality within and among countries .

About the Sustainable Development Goals

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

3.3. Corporate Social Responsibility

Corporate Sociale Responsibility is a policy for VIVAT as a whole, therefore some information in this chapter is presented on VIVAT level.

2019 has shown that our planet is more vulnerable than ever before. Signs of climate change threatening our environment are evident. People from all over the world have expressed their concerns about the future to politicians and businesses, asking them to take measures. Extreme weather, scarcity of water, deforestation, monoculture and the suppression of biodiversity, are just a few examples of global threats to our existing cultures and social connections. Not to mention the fair allocation of labour, segregation in society and access to affordable insurance for everyone.

For VIVAT, VIVAT Schade and our brands, these are pressing social developments and topics with no easy solutions to hand, although they certainly have an impact on our strategy, our business practices and our trade. We not only want to, but we must actively find solutions for these social developments. These solutions may lie in our way of investing, in proactively coming up with ideas and in working on keeping casualty products affordable into the near future. One of the solutions is to introduce more circularity, another is to redefine the utility function of the past. We cannot do that alone. We must meet these challenges together with our stakeholders – our customers, intermediaries, government authorities and civil society.

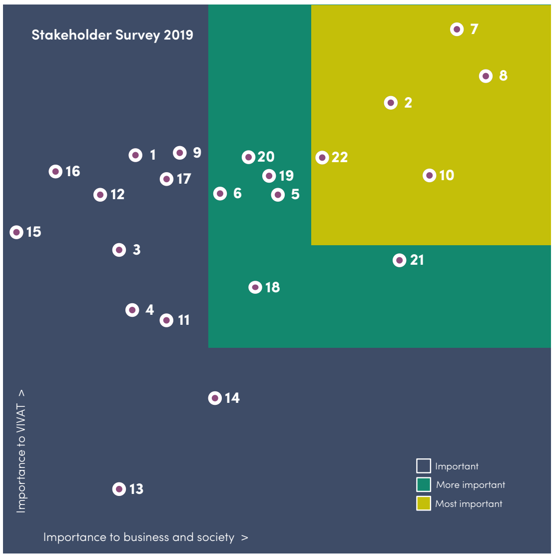
3.3.1. What our Stakeholders Tell Us

On a bi-annual basis – for the last time in 2018 – we undertake surveys among a broad representative sample of our stakeholders, such as clients, partners, employees, etc. We use the results to update our strategy, along with our underlying targets and priorities.

In November 2019, we recalibrated these by organising a round table with key representatives from our most important stakeholder groups. The outcomes and implications for the sustainability strategy of the round table were discussed with the Executive Board. As a result, updates in targets and policies were executed. The survey and round table helped us to bring focus to our strategy, priorities and Corporate Social Responsibility (CSR) programme. From the list of All Material Topics, these areas came out as being the most relevant:

> Investing responsibly (#7)
> Solvency (#8)
> Being a good employer (#2)
> Responsible pension (#10)
> Permanent employability (#22)

Of course, this does not mean that other topics are not relevant for us to pay attention to. On the contrary, the aim of this periodical survey is to follow trends and keep our focus sharp.



All Material Topics

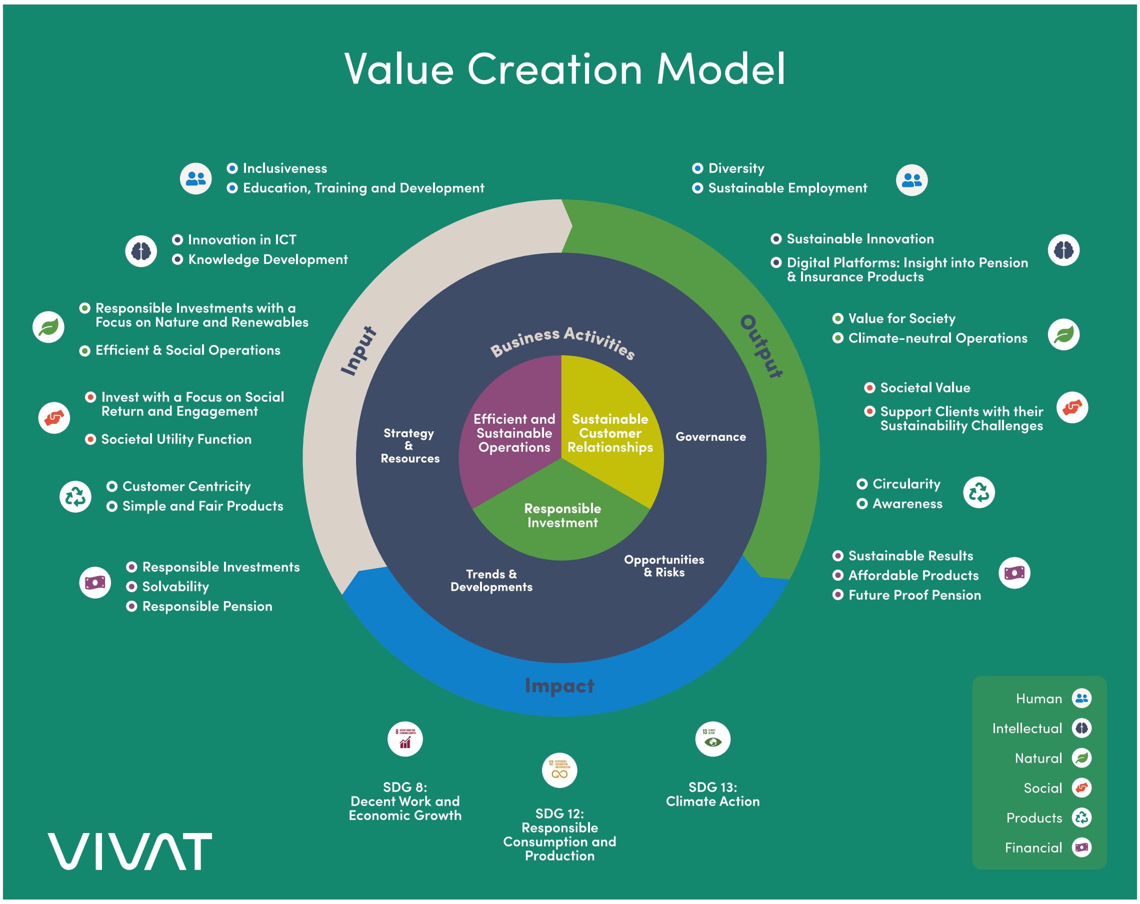
1. Appropriate and simple products	12. Minimise paper use by digitisation
2. Being a good employer	13. Animal Welfare
3. Diversity and Inclusion	14. Innovation
4. Strict selection of customers on integrity and sustainability	15. Pro-activity in customer contact
5. Products with added value for our customers	16. Ease of purchase of products
6. Sustainable procurement	17. Climate-neutral operations
7. Investing responsibly	18. Sustainable energy generation
8. Solvency	19. Circularity / stimulate reuse of products
9. Sustainable results for the organisation	20. Reduction of carbon emission by 50% in 2040
10. Responsible pension	21. Sustainable use of land and preservation of nature
11. Financial self-sufficiency of customers	22. Sustainable employability

3.3.2. Long Term Value Creation

VIVAT Schade, being a full subsidiary of VIVAT, has built its CSR policy on VIVAT's mission statement: *VIVAT makes your financial choices easy.* We want to offer our customers simple and comprehensible products. But VIVAT (and therefore VIVAT Schade) has a greater responsibility. As an insurer, the choices we make now are important for covering the protection of our customers' property and for future income generation. Therefore, we value the importance of sustainability and *focus on the long term value creation.*

Value Creation Model

VIVAT's value chain consists of the activities and processes that allow VIVAT to offer life insurance (by SRLEV), property & casualty insurance (through VIVAT's product line P&C) and asset management products (through VIVAT's product line Asset Management). These put us in the positions of employer, collaborative partner, neighbour, customer and investor. Our value creation model shows the various sources (financial, produced, intellectual, human, social & relationships and nature) that we use to achieve our strategic targets and the values that we add with our core activities.



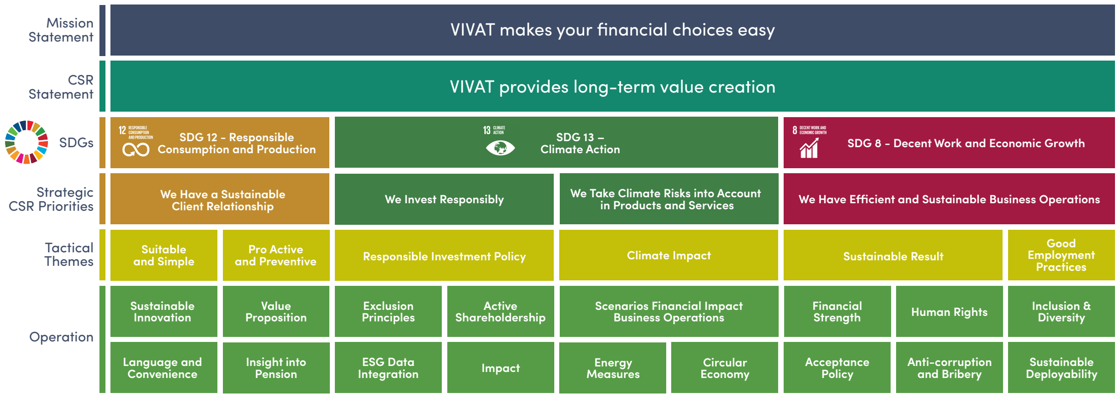
The Value Creation Model applies to VIVAT as a whole, of which VIVAT Schade is a full subsidiary

How We Translate Strategies into Actions and Objectives

VIVAT has chosen to adopt the UN Sustainable Development Goals (SDGs) as a guideline for the further development of an integrated CSR policy for our business practices. The SDGs that are most relevant to us are shown in the illustration below, and these are in turn linked to the underlying tactical themes and operational topics.

One example of an operational topic is active shareholder status and impact. VIVAT can make a difference with the assets we manage for our customers. We believe that we must offer solutions to societal challenges and that we must also provide pure financial returns. We use different methods to achieve this:

- exerting influence as a shareholder (engagement and voting);
- integrating sustainability factors into investment decisions and rewarding front runners;
- excluding certain entities from investments ;
- collaborating with other investors and organisations.



The MVO Matrix above shows a complete illustration of the operational topics

In our Connectivity Table we have visualised how these tactical themes (the basis of our business model) are translated into CSR focus areas and how they are linked to material topics. In addition, it shows the indicators that are used to control and monitor progress in the form of KPI targets and the achieved results in 2019 as well as the risks related to these indicators. Because of the extent of the table it is not possible to embed it in this report. Therefore it is published in high resolution on the VIVAT website: **vivat.nl/en/corporate-responsibility/connectivity/**

Challenges and Ambitions for 2019

VIVAT has chosen two challenges for 2019. Below is a summary of the outcome:

1. Following the round table with key representatives from our most important stakeholder groups, we updated our focus from SDG 15 towards SDG 13. In the coming two years, we will also report on the climate-related financial risks of companies with high carbon emissions in our investment portfolio, and we will also try to integrate climate-related risks into the models of (non-) financial risks within VIVAT itself.
2. Our strength lies in our people. Respect for every individual and their unique contribution is part of who we are. It is defined in our Code of conduct and Equality-policy. We value differences and diversity, knowing that different perspectives make our organisation more colourful and better in serving our clients. We foster an inclusive culture that promotes greater diversity and in which everyone can be themselves. VIVAT has the ambition for a balanced target between male / female throughout the organisation and within all management layers (at least 40% male or at least 40% female). In 2019, VIVAT reached the target for the organisation as a whole and still has considerable work to do for the management layers.

Challenges and Ambitions for 2020 and 2021

VIVAT sees challenges in many different areas. In 2019, we discussed these challenges with representatives from our most important stakeholder groups, which has resulted in new challenges for 2020 and beyond:

- *Responsible investing – engagement versus exclusion:* Our strict policies in the area of responsible investing, serve as a guideline for us to exclude companies or to engage them. Although exclusion is often easier to communicate and to implement, the reality is often more complex and we see that engagement in most cases generates value to society. How do we weight these elements and further stimulate ESG through our investments?

- *Responsible pensions:* In addition to our investments, we also offer pension-related services to our clients. Should we apply an identical engagement and exclusion policy for individuals as we do for our investments? In other words: should we exclude people who work in sectors that we exclude, also exclude from our pension products as well?
- *Return on investment:* Do we want to take the next step and continue with even more responsible investments, even if they can lead to a lower overall return on investment? Do we feel comfortable discussing this with our customers, even if this can ultimately affect the financial return on their investments?
- *Positive and negative:* Our ESG measures are intended to have a positive impact. Nevertheless, there can also be negative effects. By 2021, we want to have developed insight into possible negative effects, so that we can take this into account when determining materiality.
- *Practice what you preach:* For 2021 we strive for our own investments to meet the strict criteria that ACTIAM applies to its customers in relation to responsible investments. This includes incorporating the objectives from the Climate Agreement (Klimaatakkoord) on sector policies.

3.3.2.1. Creating Value through Sustainable Customer Relationships

Fair and Transparent Service

Customer Centricity is essential for the success of VIVAT Schade. We strive to earn and maintain the trust of our customers by being fair and transparent in our customer approach. This way of thinking and working is embedded in our business. In doing so, we apply the criteria of cost efficiency, usefulness, reliability and comprehensibility as prescribed by the regulator, the Dutch Authority for the Financial Markets (AFM).

In previous years, the AFM has tested whether insurance companies are succeeding in treating customers fairly. The regulator has published these scores for Treating Customers Fairly (TCF) on a yearly basis. Since the AFM has not given scores on TCF to any financial institution regarding the year 2019, VIVAT Schade cannot report any scores.

Customer Loyalty and Customer Satisfaction

VIVAT Schade monitors customer loyalty (NPS) and customer satisfaction. NPS measures the willingness to recommend a brand to friends and family, providing a broad perspective on how customers value the overall relationship with the brand. Customer Satisfaction helps us to understand how the service is perceived by our customers, identifying drivers for short term improvement in key customer service processes.

NPS

The Net Promoter Score (NPS) is an important indicator for Customer Centricity within VIVAT Schade. Based on the NPS survey results, our customers can be categorised in to different groups: ‘Promotors’, ‘Passives’ or ‘Detractors’. NPS is measured on a continuous basis among the various customer segments (e.g. both private and business customers, and per product line). As a result, an overall VIVAT Schade score is derived and reported quarterly, in order to monitor the progress and gain insights in the areas for improvement.

Net Promoter Score

	2019	2018
Property & Casualty	-8	-14

Customer Satisfaction

In addition to NPS, the customer satisfaction is measured among the various customer segments. These scores reflect the level of customer satisfaction on a scale from 1 to 10 (1 = extremely dissatisfied, 10 = extremely satisfied) and is expressed as the percentage of customers that value our services with an 8 or higher (so called Delighted Customers). In line with the stronger NPS performance, the VIVAT Delighted Customers Score has increased to 52% (2018: 49%). The average Delighted Customers Score was 60% for Property & Casualty customers.

Delighted Customer Score

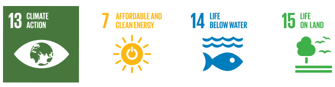
	2019	2018
Property & Casualty	60%	57%

Customer Privacy and Data Protection

VIVAT Schade has to maintain a large amount of data for a very long time. We are bound to secure customer data and data about our interactions with our customers, in particular with regards to their life, pension and disability products. VIVAT Schade not only needs to make sure that we serve our customers well and respect their privacy, but we also have to be able to provide evidence that over the span of our often long term relationship with our clients, we adequately perform our duty of care and fulfilled all our legal requirement such as tax filings and regular Sanction List scans.

With that in mind, data protection and the privacy of customer data are of key importance for VIVAT Schade. Customers can trust that their personal data are in safe hands with VIVAT Schade. That is why we have implemented policies to protect customer data and customer privacy. The privacy statements as published on the websites of VIVAT and our brands describe the categories of data VIVAT Schadecollects, the purposes of the collection of these data and how customers may access such data. Customers can contact VIVAT with requests related to that data. VIVAT Schade also has a policy to handle data leakages to minimise possible damage to customers. The appointed Data Protection Officer is responsible for monitoring compliance with the law (e.g. GDPR). In 2019, 26 data breaches were detected within VIVAT Schade of which 3 were reported to the Dutch Data Protection Authority.

3.3.2.2. Creating Value through Responsible Investing



VIVAT (and therefore VIVAT Schade) recognises that entities performing well on material environmental, social and governance (ESG) issues have a better financial performance than entities performing less good on these issues. For that reason, VIVAT delivers investment solutions with the objective to optimise longer-term financial, environmental and social returns. These solutions reduce material ESG risks of the investments and create attractive and enduring financial value to VIVAT as well as sustained social value to society.

VIVAT's sustainability policy gives a holistic and forward-thinking view on the roles of investors to guide the transition towards a sustainable society in which companies can prosper while respecting social and environmental limits, now and in the future. An important component of this policy is the categorisation of the companies in the investable universe according to their capacity to prepare for the transition risks they face.

Our efforts are also externally recognised. In the annual benchmark performed by the VBDO (Dutch Association of Investors for Sustainable Development) amongst insurers on sustainable investing, VIVAT reached the second position. We also achieved a top rank (a+) on UN PRI (Principles on Responsible Investment) in which we distinguish ourselves from competitors in the areas of ESG integration, active ownership and implementation of ESG policies via screening.

Investment Principles

Our Fundamental Investment Principles are foremost based on international treaties, conventions and best practices, including the UN Global Compact (see appendix for a comprehensive list of the international mechanisms we consult). Because these international mechanisms are considered universal, the standards underlying our Fundamental Investment Principles go beyond personal and cultural differences. In our investment policies, we take social discussions and the nature and extent of social consensus into account. Compliance with our principles will be assessed based on two main criteria:

1. Repeated or systematic involvement in activities covered by our principles, as well as failure to sufficiently remedy such involvement.

2. Inadequate preparedness to prevent this involvement from occurring in the future. A company is considered to have taken insufficient measures to prevent ongoing or future involvement, when either of the following conditions is met:

a) The company lacks coherent management systems, which include the following components:
- Management principles;
- An operational policy through which these principles are implemented;
- Adequate procedures to assess, mitigate and address risks;
- Systems for monitoring and tracking risks and risk management steps, as well as implementation of the operational policy;
- Sufficient training and education to help staff, subcontractors and suppliers in the adequate implementation and execution of the policies;
- Mechanisms to encourage frequent feedback to management; and
- Regular (public) reporting.

b) The company demonstrates no credible implementation and/or enforcement of above-mentioned management systems.

As a responsible investor, VIVAT will evaluate whether to exclude companies once it becomes clear that we will not be able to persuade them to change their behaviour. That is why, prior to exclusion, we assess whether engagement may be a helpful tool in remedying any real or potential violation. If engagement is not an option or not successful, the ultimate consequence may be exclusion from our investment universe.

When we do decide to exclude a company and investments have already been made, these assets will be sold at short notice. This may also apply to companies that are not directly involved in violations of the Fundamental Investment Principles, but whose behaviour or activities raise serious ethical questions. In 2019, the majority of exclusions by our asset manager ACTIAM (about 44%) were based on the Environment Principle, 39% of the exclusions were based on the principle 'Customer and Product Integrity', and 16% were based on the principle 'Weapons'.

Impact

We want to make our investments measurable in terms of its sustainable impact, so we can steer on positive impact based on our insights with tangible targets. We do this via calculating the carbon emissions and water footprints of key investment funds.

VIVAT and its entities do not wish to be involved in activities that cause serious environmental damage through pollution, biodiversity loss, or the depletion of natural resources. We seek guidance from the following instruments of international environmental norms and best practices, as well as environmental laws and regulations, when determining whether a company is in violation with our principles:

- Rio Declaration on Environment and Development, 1992;
- The Earth Charter, 2000;
- Principle 7 of the UN Global Compact ;
- IFC Performance Standards on Social & Environmental Responsibility;
- The Paris Agreement under the UNFCCC, 2015 ;
- The Dutch Climate Agreement (Klimaatakkoord);
- OECD Guidelines;
- Montreal Agreement.

Companies unwilling to phase out the most carbon-intensive assets, products or processes could be in violation of our principles being the Fundamental Investment Principles and the Fundamental Material Drivers. Criteria to determine whether companies are in violation of our principles, as well as distinct best practice guidelines, are further specified in our position papers. For instance, we do not invest in companies that have over 15% of their total revenue resulting from thermal coal. Furthermore, our guidelines prohibit us from investing in companies involved in particularly harmful activities including mountaintop removal mining, riverine tailings disposal, illegal logging, and extraction activities in protected areas. Such areas include those covered by the International Union for the Conservation of Nature (IUCN) Protected Areas Categories I through IV, the 1972 UNESCO World Heritage Convention, and the 1971 Ramsar Convention on Wetlands.

VIVAT takes its responsibility regarding the environment and acknowledges that harming the environment can have a negative impact on business in the near future. The recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) will be taken into account and in the coming year(s) we will try to include climate related risks in our risk approach.

Carbon Emissions

In line with the specifications set out in the Climate Agreement (Klimaat Akkoord) we have calculated the carbon emissions linked to our investments. These total 3,510 kilotonnes in 2019 and include our investment organisation and the buildings in which they operate, and most importantly the carbon impact of our own investment and those from our funds for our clients. The increase compared to 2018 is the result of a shift in our asset portfolio due to ongoing re-risking: new investments in companies tend to be more carbon intensive then government bonds.

Carbon Emissions

Carbon emissions in tonnes	2019	2018
Net carbon emissions internal organisation	3,476	4,376
Scope 1 (heating REIM)	262	395
Scope 2 (electricity REIM)	1,082	1,106
Scope 3 (investments, own account)	1,490,932	980,204
Scope 3 (investments, funds)	2,014,543	1,718,792
Total	**3,510,295**	**2,704,873**

In contrast, the funds for our clients show a decrease in carbon emissions in 2019. See the table below for the carbon intensity split out in total investment, our own account and the funds for our clients.

Carbon Emissions of Investments

Carbon emissions (tonnes per € million of AUM)	2019	2018
Total: Carbon emissions (ton) / AUM €1 million	54.1	48.9
Own: Carbon emissions (ton) / AUM €1 million	38.1	28.6
Funds: Carbon emissions (ton) / AUM €1 million	78.5	81.6

Method to determine the carbon footprint scope 3: Fund investments and own account

The carbon footprint of funds is calculated in line with the method that is currently being developed by the Partnership Carbon Accounting Financials (PCAF). The carbon footprint consists of the absolute total scope 1 and scope 2 carbon emissions of the entities in which we invest. The data is provided by external providers MSCI ESG Research and Eurostat. The data is expressed in tons of CO_2 equivalents, so it includes different greenhouse gases. Based on the share of the enterprise value of the company that is owned through investments in shares or the share of debt that is financed through loans provided to the entity, part of the entities' total carbon emissions are allocated to our investments. The sum of the carbon footprints of all individual entities in which we invest corresponds with the reported total carbon footprint of the investments. From the perspective of VIVAT the total sum of these carbon emissions is scope 3.
This assessment has inherent limitations related to quality and availability of underlying data used and will further improve in 2020.

Active Stakeholdership

In 2019, we have had numerous proactive engagements with companies. In terms of our focus themes, about 32% of our proactive engagements were related to the use of fossil fuels such as the use of cleaner energy sources and increasing energy efficiency. A quarter of the proactive engagements were related to organisational behavior and integrity and 12% related to sustainable land use. When it comes to responsive engagement according to our principles: about two third (67%) of the engagements were related to the environment (e.g. toxic spills) followed by human rights issues (10%).

3.3.2.3. Creating Value via Efficient and Sustainable Business

People are the heart of our organisation and are crucial in fulfilling our mission. For VIVAT Schade, VIVAT is the recruiting entity and VIVAT pursues to be an innovative and inspiring employer, that recruits, inspires and challenges well-performing, employees. We have several operational themes like: inclusion and diversity, vitality and sustainable employability.

Inclusion and Diversity

Respect for every individual and their unique contribution is defined in our Code of conduct and Equality-policy. We value differences and diversity, knowing that different perspectives make our organisation more colourful and better in serving our clients. We foster an inclusive culture in which everyone can be themselves.

VIVAT has the ambition for a balanced target between male and female throughout the organisation and within all management layers (at least 40% male or at least 40% female).

In our annual Talent Review and Succession Planning we continue to pay extra attention to identifying female talent and creating awareness regarding female talent. Our recruitment process is based on the Equality Policy – our job ads are designed to attract different groups in our society and to attract more female talents.

In 2019, we organised various open theme meetings on Diversity, Inclusion and Female Talent. A Masterclass Diversity, Inclusion and Authenticity was organised for the management of VIVAT. Nevertheless we have not reached our target yet. Next year we will pay extra attention to this topic by developing more initiatives and expanding existing ones.

Diversity in % (on VIVAT level)

Female in %, by function group as at the end of the year	2019	2018
Supervisory Board	20.0%	20.0%
Executive Board	33.3%	33.3%
Senior Management	20.0%	20.5%
Other staff	40.4%	41.1%

Jobs are weighted regardless of gender at VIVAT. Men and women with comparable work experience, achievements and job level are given equal pay. The differences in wages between men and woman are caused by the on average higher age of men and to level / grade differences. Within our company, women are on average 2.7 years younger than men and are underrepresented in the higher salary scales.

Sustainable Employability

VIVAT pursues to be an innovative and inspiring employer, that recruits, motivates and challenges high-performing, fit employees. To that end, we implemented our 'FIT' philosophy in January 2019, where FIT stands for Flexible, Innovative and Talented and being fit for the job that needs to be done.

The principles of FIT apply to three areas:

Job Fit	VIVAT employees fit in their roles, and make sure their employability is in good shape, now and in the future
Organisational Fit	VIVAT offers a good and pleasant working environment, with adherent tools and conditions to be able to do the best job
Personal Fit	Within VIVAT we value vitality and health, within a proper work-life balance

To facilitate our people to remain or become FIT, VIVAT implemented several initiatives in these three areas.

Personal Development

We encourage training and education among our employees to ensure that everyone is adequately equipped to fulfil their role. VIVAT believes that continuous learning is essential for employees and for the company to be able to participate in today's dynamic society and to remain competitive. Otherwise we run the risk of losing our connection with our rapidly changing world.

In accordance with our Collective Labor Agreement, everyone within VIVAT has a Growth Budget and employees are free to spend this on education or training of their choice. In this way we enable career development and future employability. Our newly launched VIVAT Learning Platform gives access to over 30,000 learning products in various categories. Employees have easy access to fulfil their learning ambitions. In 2019, 1,608 colleagues used the platform to book an education or training. About 1,100 employees made use of their Growth Budget. 64% of all employees have used all or a part of their Growth Budget of the previous three years.

Beside the access to learning we also provide a number of development tools. We have a broad offer in 'Coaching and Employability'. We offer Talent scans and Talent coaching, to provide insight and direction in individual career development. We also provide Labour Market opportunity coaching, 45+ Career coaching, Personal Coaching, and various workshops around the theme of career development in our VIVAT Learning Platform.

To facilitate development in the important areas of Data and Innovation, the VIVAT Innovation Capability Programme and the VIVAT Academy provide of all sorts of studies and trainings on data and innovation for different target groups.

For the second year in a row, VIVAT organised the VIVAT Summer School. In July and August, about 1,200 employees participated in one or more of the 39 different workshops on topics as Agile & Scrum Basics, How to become data driven, Machine learning for Dummies, GDPR and Cyber security, Design Thinking and much more. Participants rated the event with an average of 8.2.

Vitality

Because vital and healthy employees perform better, feel happier and are more employable, we offer our employees free use of Fitchannel to attend digital sport lessons. We organised Mindfulness and Time Management workshops for our employees and in October the annual *Week of happiness at work* ('Week van het werkplezier'). During this week employees can join workshops and presentations related to work stress and work/life balance. Over five hundred employees joined these activities.

Health Safety and Well-being

In January 2019, our new Health services started. With a broader spectrum of services we can support our employees even better during their absenteeism, reintegration and focus increasingly on prevention. This results in a decrease of our absenteeism rate, despite the uncertainty for employees around the sale process of VIVAT. Over 2019 the absenteeism rate was 3.3%.

We also offered one third of our employees to undergo a health check so they could timely identify an increased risk of potential health issues. This opportunity was used by 49% of the employees. Each participant received an individual report with their results.

In 2019, VIVAT carried out the mandatory Risk Inventory and Evaluation (RI&E) in terms of working conditions which was verified by an external party. An action plan was made and followed up during the year in collaboration with the prevention officer and with the consent of the works council.

Every year VIVAT conducts an Employee engagement survey to measure how we meet our goals and to see where improvement is necessary. In 2019, the response of 94.9% was – again – above expectations and it provided a lot of feedback and information on various topics. In this year with many changes, the outcome has helped VIVAT to move forward in a way that best meets the needs of our employees. The results were shared and discussed throughout the organisation.

In October 2019, we organised a second employee survey. This short, so-called Pulse Survey was intended to get information on how employees experience the uncertainty surrounding the VIVAT sales process and to ask employees what they need to move forward. More than 80% of the employees said they could handle the situation well.

Energy Measures

For VIVAT Schade, it is also important to minimise the negative impact of our own business operations on the environment. Being climate neutral is one of our main objectives. The offices of VIVAT Schade operate on one hundred percent green gas and electricity, as they have been doing for several years. In 2019, we achieved a 20.6% drop in net carbon emissions for our own internal organisation to 3,476 tonnes.

Internal Carbon Emissions

Carbon emissions in tonnes	2019	2018
Scope 1 (biogas, lease cars)	427	1,072
Scope 2 (renewable electricity)	-	0
Scope 3 (business travel, commuting, waste, paper and water)	3,049	3,304
Net carbon emissions	**3,476**	**4,376**

But our activities to work towards climate neutrality go beyond the offices in which we work ourselves. All suppliers of VIVAT Schade are requested to comply with VIVAT's General Procurement Terms and Conditions. By agreeing with these terms and conditions, suppliers declare that they have taken steps or are in the process of taking steps to minimise their ecological footprint (including carbon-emissions, paper consumption, energy consumption and waste) and have implemented or are in the process of implementing similar sustainable procurement terms and conditions in their own organisation.

3.3.3. Managing Non-financial CSR-related Risks

Investment and Environmental Risks

All entities in which VIVAT, and therefore VIVAT Schade, intends to invest in are being screened on the basis of VIVAT's Fundamental Investment Principles. These principles are based on ethical and social norms and values, regardless of whether these are material to the entity or not. Entities that systematically do not comply with these Fundamental Investment Principles are excluded from investment.

For entities not violating our Fundamental Investment Principles, VIVAT Asset Management (ACTIAM) measures the adaptive capacity to manage their exposure to the risks of not operating in the safe zone. It also measures their capacity to take opportunities to operate within the safe or in the positive impact zone. As not all drivers are equally material to all companies, not all drivers are evaluated for each entity.

Based on the assessment per driver, each entity is subdivided into one of the following five categories:

A) Positive Impact: Entities that seize the opportunity to make a positive and intentional contribution to Sustainable Development Goals while operating within the planetary boundaries. Through their positive contribution, the entities extend the safe and just zone and create a positive impact;

B) Safe and Just Zone: Entities that properly manage the risks to which they are exposed through the ongoing transitions, operate within the boundaries of the safe zone or have the required path to the safe zone, but do not create positive impact;

C) Transition – Adaptive: Entities that (still) operate outside the boundaries but are already close to the required transition path are considered to be adaptive. They have the capacity to adapt to the material and operational risks that the transitions entail. It is expected that these companies will soon reach the required route to the safe zone;

D) Transition Zone – At Risk: Entities that operate outside the boundaries and do not operate on the required transition path and have unmanaged risks are considered at risk. They currently lack the adaptive capacity to prepare for the material risks associated with the transitions and are therefore vulnerable to operational risks. However, with some extra effort they can develop this capacity and reduce their risks;

E) Transition Zone – Non-adaptive: Entities that operate outside the boundaries, far away from the required transition paths, and that lack the capacity to bring risk management up to standards are considered non-adaptive. These entities lack good management strategies with regard to material topics, are exposed to high risks and therefore run serious operational risks in the short to medium term.

The allocation to one of the categories A to E depends on a) the entity's risk exposure of operating outside the safe and just zone and b) its adaptive capacity to make the transition towards operating within these limits. The risk exposure indicates to what extent an entity is vulnerable to the ESG risks of operating outside the safe zone. Examples of assessment criteria include the carbon intensity of the products and services a company provides, location of operations, the nature of those operations and the management of supply chain risks. The adaptive capacity is based on strategies, policies, targets, implementation and demonstrated performance of companies and sovereigns to manage the risks from operating outside the safe and just zone. Higher scores on adaptive capacity indicate greater capacity to manage exposure risk. Exposure and capacity are assessed for each driver if material to sector of a company.

VIVAT Asset Management (ACTIAM) has implemented procedures and internal controls to ensure compliance to its policies. In this approach, different departments and committees have their own specific duties and responsibilities.

ACTIAM's Sustainability & Strategy team is responsible for policy development, drafting annual strategic action plans and for the proper execution of the available instruments. In the development and execution of its policies, the team is fully independent and reports directly to the Chief Executive Officer of VIVAT.

To ensure compliance with the policies, decisions are challenged by independent committees within VIVAT:
- Selection Committee: Changes to the sustainability policy and the categorisation of entities are proposed by the ACTIAM's Sustainability & Strategy team but not implemented before formal approval from VIVAT's Selection Committee (SELCOM). This committee consists of ACTIAM board members, the director of the Fund Management team, the director of the Sustainability & Strategy team as well as an independent ethics specialist that reviews and challenges the proposed decisions. The SELCOM meets at least four times a year.
- ESG score Committee: The ESG score Committee (ESCOM) decides on the implementation of the sustainability policy through the ACTIAM ESG scores, worst offenders, positive selection and green bonds. The ESCOM monitors whether the right companies are selected as worst offender, for positive selection or for green bond and subsequently receive the right premium on the VIVAT ESG score. In addition, the ESCOM monitors the methodology by which the ACTIAM ESG scores are determined.
- Audit: Implementation and results of the VIVAT Sustainability Policy are part of the VIVAT Annual Report.

Social and Personnel Risks
In 2019, our shareholder Anbang performed a strategic review concerning the ownership of VIVAT. We tried to inform all staff as well as possible to keep everyone on board. Looking back we have largely succeeded: the absenteeism rate did not increase but in fact decreased, our staff turnover in 2019 progressed as planned and was in line with our Operational Plan and our employee satisfaction is still 7.2.

Human Capital Risk
In spring 2019, VIVAT performed an analysis on the risk of the ongoing strategic review by Anbang and made a plan to identify risks and mitigating measures related to our Human Capital. Different risk groups were identified for which different risks apply. Mitigating measures have been drafted for different stages in time. For example timing and tone of voice in communication and monthly monitoring turnover rates. This way we aim to constantly monitor the state of the organisation and its employees in this year of change, and mitigate the loss of human capital in the process.

Human Rights Risks
The UN Guiding Principles on Business and Human Rights, endorsed unanimously by the UN Human Rights Council in June 2011, underline the corporate responsibility to respect human rights. This responsibility, which is also affirmed in Principles 1 and 2 of the UN Global Compact, requires companies to avoid causing or contributing to adverse human rights impacts through their own activities, and to prevent, mitigate or remedy human rights impacts directly linked to their operations, products or services.

The responsibility of entities to respect human rights refers, as a minimum, to the core internationally recognised human rights, contained in the International Bill of Rights (composed of the 1948 Universal Declaration of Human Rights, the 1966 International Covenant on Civil and Political Rights, and the 1966

International Covenant on Economic, Social and Cultural Rights). Depending on the circumstances, entities may need to consider additional universal human rights standards, for instance relating to the protection of the human rights of specific groups, such as indigenous peoples, women, persons with disabilities, and migrant workers and their families.

VIVAT supports these views on companies' human rights responsibilities and considers violations of these international mechanisms to be in violation of our principles. Compliance with these principles is screened every quarter of the year based on two main criteria: a) systematic involvement in activities that are in violation with our principles, as well as b) failure to sufficiently remedy such involvement and inadequate preparedness to prevent this involvement from occurring in the future. VIVAT excludes companies once it becomes clear they cannot be persuaded to change their behaviour. Prior to exclusion, in an investigative period VIVAT assesses whether engagement may be a helpful instrument in remedying any real or potential violation. If engagement is not an option or unsuccessful, the consequence may be exclusion from the investment universe. For sovereigns, non-compliance automatically leads to exclusion.

In 2019, 22 new companies were excluded. Added to the 26 companies we excluded in 2018, this brings the total number of excluded companies to 48. In addition, in 2019 two countries were excluded on the basis of 'Indicators from the Freedom House's Freedom in the World Report' (Nicaragua and Uganda), bringing the total to 53 excluded countries.

Anti-corruption and/or Bribery Risks

It is the policy of VIVAT and its subsidiaries to conduct all of VIVAT's business in an honest and ethical manner. This is also expressed in the zero tolerance approach VIVAT takes to corruption and bribery. The prevention, detection and reporting of corruption and bribery are the responsibility of all those working for VIVAT. VIVAT endorses the following conventions and principles: UN Convention Against Corruption, 2003, OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997, OECD Guidelines for Multinational Enterprises and Principle 10 of the UN Global Compact.

VIVAT has a corruption and bribery policy in place. Closely related to the corruption and bribery policy, VIVAT also has a code of conduct, pre-employment screening policy, client integrity policy (AML, CFT and Sanctions regime), procurement policy, incident management policy and whistleblowing policy in place. These policies describe the principles to counter corruption and bribery on which VIVAT must takes adequate measures.

The principles and measures as described in the policies are translated in business controls and management controls. Among others the controls are related to:
1. the due diligence of employees, third parties and clients;
2. accepting and providing of gifts, hospitality and donations;
3. financial record keeping;
4. training and awareness of employees;
5. whistleblowing and hotline incident reporting mechanisms;
6. yearly business risk analyses on corruption, bribery, conflicts of interests and client integrity.

However, VIVAT takes a zero tolerance approach to corruption and key risks with regard to corruption and bribery are mitigated by key and management controls, VIVAT has no explicit quantitative performance indicators with respect to corruption and bribery besides of incident reporting indicators. In 2019, VIVAT has not detected and reported any forms of corruption and bribery.

Based on the yearly risk analysis, VIVAT considers senior management (network and family related risks), procurement, account management, marketing & communication departments (third party risks) as the most vulnerable positions/locations for corruption and bribery. Corruption and bribery can consists of offering, promising, giving, accepting or soliciting of an advantage as an inducement for action which is illegal, improper or a breach of trust, in public as well as in private sectors. Among others, this may lead to operational losses, reputational damage and damaged relations with stakeholders.

Based on the yearly risk analysis, VIVAT considers the risks of corruption and bribery of non-senior management, geographical factors, sector, product or transaction factors relatively low. Senior management (network and family related risks), procurement, account management, marketing & communication departments (third party risks) are considered the most vulnerable positions when it comes to corruption and bribery. If a case of bribery or corruption were to occur, it could lead to operational costs, reputational damage and damaged relations with stakeholders. The findings from the analysis performed are taken into account in the business control measures.

Anti-money Laundering and Sanction Law

VIVAT annually analyses the risks related to sanction regulations, money laundering and terrorist financing on the basis of a systematic integrated risk assessment. In 2019, several gaps were identified concerning the identification and verification (of Ultimate Benificial Owners), CDD, mitigating actions on the risk classification of clients, reporting and record keeping. Although Product and Functional Lines are working in close cooperation towards sustainable solutions, VIVAT has first addressed the most urgent gaps by implementing manual mitigating actions. The Compliance department monitors the risks based on the effectiveness and implementation of policies.

In VIVAT's efforts to ensure compliance with applicable laws and regulations, instances of non- compliance occur, with regard to Sanction law and anti-money laundering. These instances including a timely plan to address and resolve current and future cases, are shared with the regulators. In January 2020, VIVAT submitted an assessment report of the remediation activities by an independent auditor to DNB, and is awaiting DNB's response.

3.4. Business Performance

In recent years, VIVAT Schade has always defined four key themes for the business: customer centricity, data, digitalisation and innovation. These themes have become a common thread in everyday work and have also served as guidelines for our actions in 2019.

To show how these themes have influenced our work, a brief overview precedes the description of the performance of the individual product lines.

3.4.1. Key Themes

Customer Centricity

In our main strategy, as well as in our CSR guidelines, we always put our customers first. Our customers give us a reason to exist as an insurer. Thanks to them, we can offer collective insurance to a larger group and we can make a meaningful contribution to value creation in the long term, for our customers and for society. That is why we are keen on serving our customers as well as possible. Not only by offering affordable and transparent products and services, but also by making the way customers can assess, buy and use these products as easy as possible.

In 2019, the product lines Life Corporate, Individual Life, Property & Casualty and the departments Digital, VIVAT Contact Centre (VCC) and Customer Office have worked closely together, to increase the company's maturity in the field of Customer Centricity.

Company-wide we have adopted a method to deploy customer journey's that has been applied to various situations. This method identifies the touch points at which customers have difficulty using a product or service. Based on customer interviews, improvements are immediately made so that customers are served faster, better and more pleasantly. In 2019, improvements have been made to various processes.

Data

To better understand the changing needs of our customers, we increasingly rely on the use of data. Data provides us with the tools to better serve our customers. But it also gives us input to the take preventive measures. Severe weather conditions for instance contribute to an increasing claims burden and we see it as a shared responsibility of insurer and customer to prevent this kind of damage. Publicly available data can help us with this, and we are increasingly seeking cooperation with companies that can help us and our customers with services and products to prevent damage. From our sense of responsibility, we use various channels, such as social media, to warn customers and give tips on how they can prevent damage themselves.

In 2019, VIVAT put a lot of effort in expanding and improving our data infrastructure by making more data sources available and to fully automate the data processes. This has resulted in a faster time-to-market and in processes that have become much more reliable.

There is a lot of attention to data quality within VIVAT. At year end 2019, we were measuring the data quality of approximately 7,500 data fields – an increase of 48% compared to 2018 – and more than three hundred million records (+ 121%). Any data issues are discussed and addressed in various data steward teams.

In 2019, VIVAT also made major steps in the field of Artificial Intelligence (AI). We used AI to expand our insurance fraud detection system – to keep the premium low for our customers – and to automate document flows within the back office. With AI, for example, documents are automatically classified and indexed. Other AI projects are various marketing-oriented projects such as Next Best Action, predicting the best time to send mailings and predicting payment arrears.

Working with data is becoming increasingly important. We kept on training our employees as data scientists at our university partner JADS in Den Bosch. In 2019, four of our employees were trained as data scientists. We organised fifty sessions ourselves to inspire colleagues about data-driven work, which were attended by no fewer than 1,100 colleagues. In 2019, 520 new reports were developed internally. There are now 1,300 colleagues who actively use our reporting tool Power BI (end of 2018: 800 users).

Not only is data a source for us, it also gives us a great responsibility to handle the privacy-sensitive data of customers with care. After data ethics sessions with the Dutch Central Bank (DNB), the Dutch Authority for the Financial Markets (AFM) and the Dutch Association of Insurers and a company-wide discussion, we developed a data ethics framework in 2019 to be able to handle data and artificial intelligence responsibly.

Digitalisation
In January 2019, a campaign was launched to drastically reduce the paper output: VIVAT GOES DIGITAL. We removed 18 printers throughout the company to force employees to print less. Internally this resulted in more than 240,000 less printed documents in 2019 compared to 2018. At the same time, we added a message to our email signatures that called out to the recipients not to print mails unnecessarily.

Even more impactful were the actions that were carried out on a larger scale by collecting as many email addresses from customers as possible in order to reduce the number of letters and documents that we have to send out. In 2019, we collected over 185,000 email addresses from customers that we previously could only reach by phone or by letter. At year end, 25% of all customers had given their consent to be approached digitally instead of by mail. In total, we now have 200,000 customers with whom we fully communicate digitally.

Innovation
Innovation is an indispensable part of any business that wants to develop. Also for VIVAT. In recent years we have fully focused on innovation. We have sought cooperation with external partners who could help us find the right path – away from the issues of everyday life. This has resulted in new propositions such as Vigi. But it has also taught us that it is not easy to change the traditional insurance market. Some of our failures were therefore no less valuable. In 2019, we chose to bring back the knowledge we gained in the innovation process within the walls of VIVAT.

In 2019, various employees were trained in Design Thinking. Using this method, we have developed a proposition for our P&C business to increase awareness about fire prevention at hospitality companies. Another innovation has taken place in the field of data analysis. Proper analysis of data is complex. That is why we have developed a Data Quality Dashboard within VIVAT, which we also tested externally and can now offer as a fully-fledge IT service to external companies that need insight into their data quality. Another example of innovation is the 'Start-up Sandbox'. Many start-ups arise from one or two good ideas, but often lack the financial and technological resources to unlock these ideas. That is why VIVAT and Startup Bootcamp have developed a sandbox, a scalable cloud environment to further develop their ideas while meeting the strict security requirements that corporate organisations often apply. Finally, within the Indigo project, we have built an automatic classification system by using Artificial Intelligence that is able to classify various documents by type. An outcome when digitising the many tens of millions of old files that are in use within our company.

3.4.2. Property & Casualty

Today, consumers are more and more expecting clear products and fast, high-quality services at a competitive price. The Property & Casualty (P&C) product line tries hard to meet these expectations for clients that are looking for property & casualty insurances. In collaboration with selected partners we aim to offer attractive new customer propositions. In doing so, we expand our portfolio in a sustainable way and we improve our risk management by integrating data and using new ways to analyse these data.

Prevention is a key pillar in our policy. Our *Bedrijfswacht* and *Lijfwacht* programmes have proven to be valuable instruments that contribute to sustainable, profitable growth, and that improve the Combined Ratio (COR) of the existing portfolio. VIVAT continuously monitors the profitability of all segments in the portfolio.

Objectives for 2019

The P&C market is highly competitive but dynamics are changing. The market is consolidating and insurers are no longer accepting losses. This is reflected in for example increasing premiums and changing of conditions for the coinsurance business.

In view of these market developments, the objective for 2019 remained to increase profitability by raising premiums, focusing on prevention and looking for opportunities where other insurance companies are retreating. When identifying opportunities, the goal is always 'margin over volume'.

To reduce costs, P&C was keen on creating automated processes. We also planned to integrate data solutions into our underwriting and claims cycle to achieve sustainable profitable growth in the retail market. Furthermore, it was our goal to improve customer satisfaction and to achieve a better Net Promoter Score (NPS) and Delighted Customer Score (DCS). A sound and controlled operational management is crucial and therefore it is necessary to further strengthen our control framework.

For the commercial lines, our goal was prevention from a customer perspective. To help our customers find the right insurance policies that match their risk and needs, we were keen on attracting skilled staff that can act as a sounding board for our distribution partners.

Achievements in 2019

In 2019, P&C continued the trend to improve its results. This was also reflected in a further reduction of the Combined Ratio toward 91.4%. Profitable growth was achieved as premium volume increased from € 735 million in 2018 to € 789 million in 2019, a growth of 7% in a flat Dutch insurance market. The provision for current risks decreased by € 14 million mainly because of a parameter update, an improved performance of the portfolio and one off effects resulting in the release of the unexpired risk reserves (URR). The URR is nill per year-end 2019.

VIVAT Schade profited from product improvements, clear steering on the risks, further IT rationalisation and its strong relationship with intermediaries, brokers and Authorised Agents.

Portfolio growth was visible in all P&C channels but most pronounced in Authorised Agents, continuing a growing trend after the turnaround in 2018. This resulted in major increases of quotations, applications, administrative changes and claims. In addition to its significant growth, the Authorised Agents channel was also one of the more profitable channels in 2019.

In the retail market, P&C increased its efforts in data collection and analysis to improve the insurance technical cycle. The Dynamic Pricing Programme was implemented, in which data is centralised and more effective methods are used for portfolio management. A successful campaign and a new proposition for pet insurance has ensured that Reaal Dier & Zorg is now the market leader in pet insurance.

Furthermore, VIVAT and P&C continued their cooperation with Amsterdam Data Science in the Insurance Lab, in which three PhD candidates investigate new data applications and techniques in risk modeling, fraud detection and customer acquisition.

Customer satisfaction (NPS) increased to -8, which means the high score from 2018 (-14) was improved upon.

The intermediary retail portfolio grew after years of decline. The new business was 27% higher than in 2018. The intermediary satisfaction increased from -20 to -7 in 2019.

In the commercial lines, the new online platform *Reaal Bedrijfswacht* was introduced, offering a bundle of prevention services by third parties for our intermediaries. With this platform, VIVAT lives up to its focus on prevention and adds a new dimension to its service level. The commercial portfolio grew as well from € 7.2 million in 2018 to € 12.1 million in 2019: a growth of 68%. Intermediary satisfaction increased from -18 to +4.

VIVAT managed to further simplify the organisation by completing the transfer of activities from the office in Assen to its main location in Amstelveen. In the back office, old portfolios were converted to target architecture. These simplifications are designed to make P&C more agile, while reducing costs and further improve our competitive position.

During 2019, P&C improved the procedures related to its Internal Control Framework and its underwriting and claim management activities. P&C addresses observations of regulators with regards to complaint management, PARP and the Sanctions Act.

Looking ahead, P&C expects that climate change will have an impact on the P&C insurance market and on society. Therefore, climate is a key theme on our innovation agenda. In the Green Village of TU Delft, P&C organised a climate event with distribution partners to discuss the consequences of climate change and to raise awareness about climate damages. As part of prevention activities, P&C alerts its customers when bad weather is approaching and gives tips to prevent damage to themselves or their belongings.

P&C succeeded in continuing the strong results of the Disability portfolio in 2019. Thanks to attention to prevention through the *Lijfwacht* programme and a clear strategy aimed at preventing claims by helping customers to reintegrate in a sustainable way. This resulted in satisfied customers on the one hand and led to lower claims for the insurer on the other. Disability reported a positive NPS of +3 for the first time. Commercially, Disability conducted various campaigns throughout 2019, effectively ending the portfolio decline and stabilising the premium level.

Challenges

Of course VIVAT Schade also faces challenges. The market for P&C is very competitive and some products are still loss-making for the entire market.

Regulatory requirements and legislation, such as the Sanctions Act and GDPR, require a continuous effort from the P&C organisation and more cooperation with distribution partners in order to remain compliant. The climate change as well as the introduction of new technologies, will also have a major impact on the P&C activities going forward.

3.5. Financial Results

P&C had a strong commercial year. The gross premium income increased by 7% to € 789 million in 2019.

Operating expenses were 3% lower compared to 2018, despite the new Collective Labour Agreement and extra costs for handling the growth of the portfolio, as a result of continuous cost reduction initiatives.

Direct investment income increased by € 3 million due to re-risking in higher yielding investments.

The NUR increased by € 37 million in 2019 compared to 2018. This result was driven by favourable claim developments in 2019 and a better performance of the portfolio due to continuous efforts to improve underwriting and claim management. This resulted in positive developments on the most recent accidents years. In 2018 there was a storm (€ 15 million negative impact on IFRS net result) but also a release from the unearned premium reserve (€ 10 million) linked to authorised agents due to an improvement of in depth portfolio data.

The Net Result IFRS improved by € 56 million because of a better technical result and higher investment income.

The COR of 91.4% improved by 5.4%-point compared to 2018. This improvement was driven mainly by an improved claims ratio and a slightly lower expense ratio. The 2018 COR excluding storm was 94.1% (including storm 96.8%).

Financial Result

In € millions	2019	2018
> **Result**		
Gross Premium Income	789	723
Direct Investment Income	15	12
Operating expenses	112	116
Net Result IFRS	66	10
Net Underlying Result	45	8
Combined Ratio (COR)	91.4%	96.8%

Balance sheet

Total assets of VIVAT Schade increased by € 46 million to € 1,820 million. This increase mainly consists of an increase of investments (€ 38 million) and derivatives (€ 28 million) as a result of changes in market value caused by long interest rate movements.

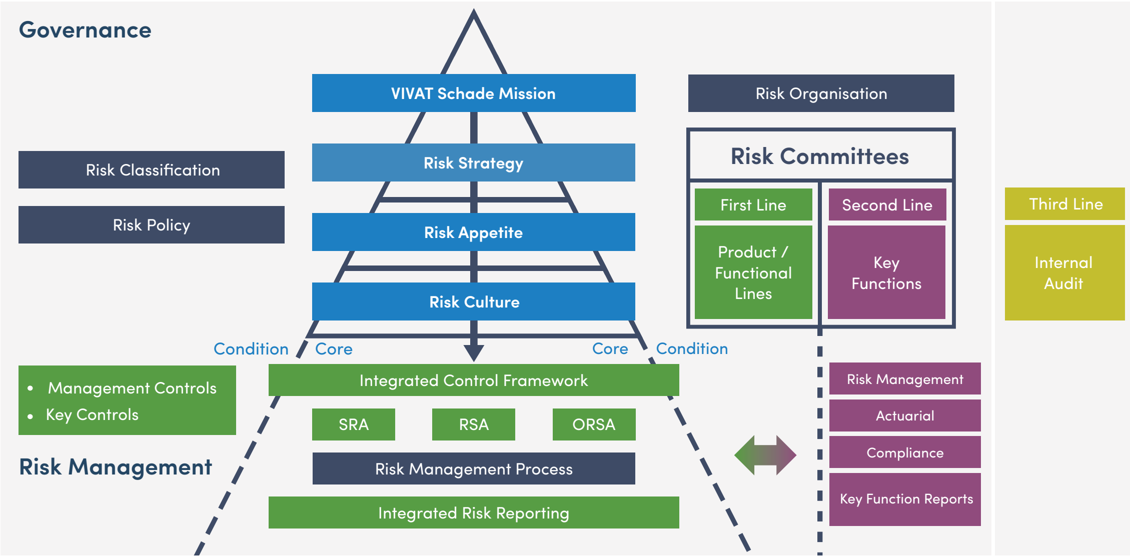
Total liabilities of VIVAT Schade decreased by € 16 million to € 1,421 million, mainly due to the decrease of insurance liabilities as a result of a better performance of the underlying portfolio from continuous efforts to improve underwriting and claim management. Partly offset by an increase of the amounts due to banks as a result of higher received cash collateral for derivatives.

3.6. Risk and Capital Management

Risk and capital management is more extensively described in Chapter 7 ‘Managing Risks’ in the consolidated financial statements.

Risk Management System

VIVAT Schade implemented a consistent and efficient risk management system in which specific Solvency II requirements such as the key functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. It operates an integrated approach, with risk management integral part of the decision making process.



Risk Management

The core of the Risk Management System consists of a Governance part and a Risk management part. In the governance part, starting from the VIVAT mission and business strategy, the risk strategy and risk appetite are derived. The components risk policy, risk classification and risk organisation are necessary conditions to enable these strategic risk processes. To ensure an integrated approach the first line product and functional lines and the second line key functions use the same risk classification, operations are covered by the risk appetite and are aligned by a policy structure. Decision making is in line with VIVAT Schade's risk policy and risk appetite.

Risk Strategy

VIVAT Schade has derived a risk strategy, a supporting set of objectives following from the VIVAT mission to achieve the strategic goals. The risk strategy is expressed in the risk appetite. As main principles VIVAT Schade has defined a robust capital position, a sustainable capital generation and sound and controlled business operations. VIVAT Schade provides guarantees for future payments to its customers and therefore VIVAT Schade needs a strong capital position. The Executive Board would like to hold a buffer above regulatory capital requirement to absorb temporary volatility and provide more certainty to its customers.

Risk Appetite

The Risk Tolerance in the Risk Appetite is set yearly and is subsequently translated into practical risk objectives. Risk appetite is defined at VIVAT level which includes the Risk appetite of VIVAT Schade. Subsequently it is developed in more detail on the individual legal entity level or specific Product or Functional lines in the form of individual quantitative risk limits and qualitative constraints. The limits are measurable; the qualitative constraints are observable. When implementing the strategy, the Executive Board gives guidelines to the product lines for establishing Operational plans, taking into account the set risk appetite and corresponding limits. With those objectives and constraints as starting point, the product lines optimise risk and return by developing the best possible products and services.

Risk Culture

Culture and conduct in general play a vital role in steering a company, and specifically in adequate risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. VIVAT Schade has awareness programmes in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. Furthermore, VIVAT Schade ensures that senior management and employees on key functions are fit and proper to fulfill their job. Finally, VIVAT's remuneration policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

Risk Organisation

VIVAT implemented the 'Three Lines of Defence' control model (3LoD) including the Solvency II key functions and a risk committee governance structure. It contributes to the strengthening of the risk culture, taking responsibility for managing risks and internal control, and eventually to the further optimisation and integration of the risk management.

Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management & process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and VIVAT Schade's risk appetite. After the implementation of the ICF and GRC tooling in the period 2015-2017, the ICF was further strengthened in 2019 by focus on the governance, quality of risk assessments and improvement of process and control design. Progress has been made in specific areas like re-assessment process design in prioritised areas (risk control matrix and control descriptions), embedding regulatory requirements in process and management controls (e.g. related to GDPR and Sanction/AML regulation), increase the number of automated processes and controls, broadening of testing activities by the second line, incident analysis and increased analysis and reporting possibilities in GRC tooling.

Underwriting and ALM

VIVAT Schade assesses underwriting risks by following the Product Approval and Review Process (PARP) for new or adjusted products and management of the existing portfolio. VIVAT Schade mitigates underwriting risks primarily by means of diversification and reinsurance. The reinsurance programme is determined on the basis of risk assessments of the various portfolios, the size of the portfolios, the nature of the underwriting risks, the profit or loss, the risk appetite and the financial strength of the company.

The starting point for the ALM policy is the Balance Sheet Assessment (BSA), which is drawn up annually. The BSA seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, laws and regulations. This BSA is used as a basis for defining a Strategic Asset Allocation (SAA), which is in turn used to translate specific investment activities into an investment plan and investment mandates for ACTIAM, taking into account the risk tolerances in the Risk Appetite Statements (RAS), solvency ratio, the tax position and the long-term risk exposure. When finalising the SAA, specific attention is paid to the availability of sufficient expertise in the segments in which investments are held. All investments are monitored by means of reports on performance and capital. Investments are made in accordance with the prudent person principle taking into account the interests of the policyholders. The prudent person principle is part of the ALM policy. Investments are made exclusively in assets and instruments whose risks are properly identified, measured, monitored, managed, controlled and reported, but also comply with ESG principles.

Developments

In 2019 VIVAT Schade has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. This dynamic and change oriented environment, the announced strategic reorientation of our shareholder, new and changed legislation, combined with a continued focus on cost reduction and revenue models could influence operational and compliance risks. These risks are addressed, managed and monitored within the VIVAT Schade risk framework to maintain a sound and controlled organisation.

In 2019 several IT-frameworks were aligned to further improve efficiency. To become a data driven organisation by collecting, managing and using data is one of VIVAT Schade's strategic pillars. Data governance is in place to evaluate, direct and monitor data initiatives and the implementation of data policies and data related legislation, e.g. GDPR. VIVAT Schade's Data Strategy in 2019 has developed further to support VIVAT Schade in becoming a customer oriented service organisation. Steps were taken in 2019 to improve and standardise integration of processes, systems and data based on Data Management and Data Architecture.

In 2019, VIVAT Schade completed compact model risk overviews for several departments to increase insight in its model risk. VIVAT Schade has improved several models. Within the Risk Model Landscape programme important steps towards lower model risk have been taken by converting leading SCR and ALM tooling to new models and systems. Ongoing model validations on reporting, (asset) valuation and pricing models, following a risk based approach, further increased model insight and provides guidance towards lower model risk.

Capital Position

VIVAT Schade's Solvency II ratio increased from 156% to 165% in 2019. This increase was driven both by management actions and market developments.

The main items driving the change in the Solvency II ratio were:

- Improvement of insurance parameters had a positive impact of 20%-point, consisting of disability for health business (+17%-point) and expected loss ratios in property & casualty business (+3%-point);
- VIVAT Schade hedges the Solvency II ratio for interest rates movements: when the interest rates decrease, Own Funds increase to offset the impact of an increase in the SCR. Although VIVAT Schade hedges the Solvency II ratio for interest rates movements within the RAS boundaries, the Solvency II ratio was slightly exposed to interest rate decreases, leading to a negative impact due to the decrease in rates of 8%-point during the year;
- A reduction in the Volatility Adjustment ("VA") from 24 bps to 7 bps, which had a negative impact of 3%-point on the Solvency II ratio.

Solvency II position

In € millions/percentage	2019	2018[1]
Total eligible own funds	627	564
SCR	381	361
Solvency II ratio	165%	156%

[1] Figures as filed with the regulator

Capital Management

Capitalisation refers to the extent to which VIVAT Schade has buffer capital available to cover unforeseen losses and to achieve the strategic objectives of the company. VIVAT Schade manages its capitalisation within limits set in the Risk Appetite Statement. Annually target setting happens in the Operational Plan culminating in a Capital & Funding Plan. Monthly and quarterly forward looking monitoring enables VIVAT Schade taking timely action if capitalisation would deteriorate. VIVAT Schade assesses its capitalisation regularly with respect to level and quality in the ORSA and with respect to risk / return in the Balance Sheet Assessment.

VIVAT Schade aims for a robust and strong capital position in accordance to its risk profile, which contributes to both the confidence that clients have in the institution and access to financial markets. VIVAT Schade deems a solvency ratio between 140% and 200% as a normal going concern level. The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet requirements. The second objective of the Capital Policy is to ensure capital is used as efficiently and flexibly as possible to facilitate the implementation of VIVAT Schade's strategy.

A preparatory crisis plan exist which describes the procedure that applies in a contingency situation. A contingency situation. A contingency situation is a situation in which a capital deficit arises, or threatens to arise, that poses a direct threat to the going concern of VIVAT Schade. In its Risk Appetite, VIVAT Schade has defined specific triggers that determine whether a contingency situation exists. The COVID-19 Outbreak might lead to a contingency situation and VIVAT Schade is currently monitoring the potential impact of COVID-19 on its capital and Solvency II ratios, however at the moment based on the current solvency position no contingency situation is identified.

The ORSA is an integral part of VIVAT Schade's management control cycle. It is input for the operational plan and capital management and is used in determining the risk appetite. The ORSA 2019 concludes that VIVAT Schade's risk profile is well reflected in the SCR standard formula and Solvency is adequate.

Solvency II

Under Solvency II, the supervision of the risks to which an insurer is exposed and the management of those risks play a central role. The financial requirements reflect the risks to which insurers are exposed. Moreover, Solvency II aims to be in line with market developments and the internal risk management systems used by insurers.

VIVAT Schade discloses its solvency position and financial condition on a Solvency II basis by means of public reports as required by law. Solvency II applies to VIVAT Schade as an independent authorisation holder.

VIVAT Schade calculates its position under Solvency II using the standard formula, applying the Volatility Adjustment (VA) and thus making use of the possibility of applying long-term guarantee measures. VIVAT Schade does not apply the Matching Adjustment.

The internal risk limit for the Solvency II capital ratio on VIVAT Schade level amounts to 140%. When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Capital Requirement. Tax offsetting (Loss Absorbing Capacity of Deferred Taxes) in the SCR is applied at 0% for VIVAT and her legal insurance entities, except for legal entities with a net

Deferred Tax Liability (net DTL). In these cases tax offsetting equals the net DTL-position, for VIVAT Schade this amounts to € 32 million.

Managing Sensitivities of Regulatory Solvency

In addition to underwriting risks, important market risks are interest rate risk and spread risk (credit spreads). Sensitivity to interest rates is measured by means of a parallel movement in the yield curve.

The Ultimate Forward Rate (UFR) of 3.90% prescribed by the European Insurance and Occupational Pensions Authority (EIOPA) also introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year. This will have a limited negative impact on solvency results.

The Non-Life business is mainly sensitive to changes in disability ratios, loss ratios and claims ratios. Quantitative information about risks and related sensitivities for both Solvency II and IFRS have been described in Chapter 7 ‘Managing Risks’ in the consolidated financial statements.

4. Corporate Governance

4.1. Shareholder

Anbang Group Holdings Co. Ltd. is the sole shareholder of VIVAT NV.
VIVAT Schadeverzekeringen NV is a wholly owned subsidiary of VIVAT NV.
Anbang Group Holdings Co. Ltd. is an indirect subsidiary of Dajia Insurance Group Co. Ltd.

In February 2018, the China Banking and Insurance Regulatory Commission (CBIRC) – formerly known as the China Insurance Regulatory Commission (CIRC) – temporarily took over management of Anbang Insurance Group Co. Ltd. During this interim period, the majority of the shares in Anbang Insurance Group Co. Ltd. were held by the China Insurance Security Fund Co. Ltd. (CISF). In February 2020, CBIRC announced it had ended its two-year period take over.

4.2. The Executive Board

The Executive Board is responsible for the strategy and management of the company. Mr. J.J.T van Oijen resigned as CEO as of 31 January 2020. Mr. M.W. Dijkshoorn was appointed as delegated Supervisory Board member as of 1 February 2020. The position of a Supervisory Board member delegate includes extended supervision of the Executive Board and advising the Executive Board on behalf of the Supervisory Board. He is not a member of the Executive Board.

Composition, Appointment and Role

The Executive Board as of 31 December 2019 consists of the following:

Name	Nationality	Position	Date of appointment	
J.J.T. (Ron) van Oijen	Dutch	Chief Executive Officer	14 March 2016	*
Y. (Yinhua) Cao	Chinese	Chief Financial Officer	23 October 2015	
L. (Lan) Tang	British	Chief Risk Officer	26 July 2015	
W.M.A. (Wendy) de Ruiter-Lörx	Dutch	Chief Commercial Officer	24 May 2016	
X.W. (Xiao Wei) Wu	Chinese	Chief Transformation Officer	26 July 2015	
J.C.A. (Jeroen) Potjes	Dutch	Chief Operating Officer	24 May 2016	

* Ron van Oijen has resigned from his position effective 31 January 2020.

J.J.T. (Ron) van Oijen

J.J.T. (Ron) van Oijen (1961) is chief executive officer. He obtained a master's degree in actuarial science at the University of Amsterdam, followed by an advanced management programme at the Wharton Business School. Van Oijen started his career at Aegon and ING in the Netherlands. He subsequently worked as chief executive officer of ING Life and ING Bank in the Czech Republic and Slovakia for four years. In Seoul and Hong Kong he led the large ING Life branches in India, Thailand and South Korea as regional chief executive officer, after which he was appointed as chief executive officer of AIA Thailand. Van Oijen is also a member of the board of the Association of Insurers, Chairman of the Supervisory Board of football club NEC and president of the Royal Actuarial Association of the Netherlands.

Y. (Yinhua) Cao

Y. (Yinhua) Cao (1975) is chief financial officer. He holds a bachelor's degree in international finance from the Shanghai University of Economics and Finance. Cao started his career in the financial service sector at PricewaterhouseCoopers in 1998. He was the lead audit partner for large insurance companies and asset management companies, and as the lead partner, he was also involved in various finance and solvency consulting programmes for insurers. His last position with PricewaterhouseCoopers was the partner of the financial service group. At Anbang, he commenced as managing director of Anbang Asset Management Hong Kong and finance director of the Anbang Insurance Group. Cao is also a member of the financial and economic committee of the Dutch Association of Insurers.

L. (Lan) Tang

L. (Lan) Tang (1974) is chief risk officer of the Executive Board. He holds a bachelor's degree in engineering from Beijing University of Aeronautics and Astronautics and a master's degree in actuarial science from Central University of Finance and Economics in Beijing. Tang is a qualified actuary of the United Kingdom. He worked as a consulting actuary for an actuarial consulting firm in London, after which he worked for a global actuarial consulting firm in Hong Kong and an accounting firm in China. In 2010, he started working as chief actuary of Anbang Life, where his last position was deputy general manager and chief actuary of Anbang Life. Tang is also a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen. He is also a non-executive director of Bank Nagelmackers NV.

W.M.A. (Wendy) de Ruiter-Lörx

W.M.A. (Wendy) de Ruiter-Lörx (1973) is chief commercial officer of the Executive Board. She holds a master's degree in business economics from Erasmus University Rotterdam. She also completed a master's in management & organisation at TIAS Business School in Tilburg. She started her career at ING and Nationale Nederlanden, where she worked for fifteen years, fulfilling various managerial roles in operations and product and process management at both Nationale Nederlanden and ING Bank. Her most recent position at Nationale Nederlanden was that of director of retail clients. De Ruiter-Lörx joined Reaal Life as a unit manager in 2012. Two years later, she was appointed director of Reaal's life business in charge of life policies and mortgages. De Ruiter-Lörx is a member of the distribution committee of the Association of Insurers.

X.W. (Xiao Wei) Wu

X.W. (Xiao Wei) Wu (1980) is chief transformation officer of the Executive Board. She holds a bachelor's degree in international finance from the University in Fudan, China, and a master's degree in business administration from China Europe International Business School in Shanghai. She worked as associate principal at McKinsey Shanghai, for the insurance sector in Asia. In 2012, Wu commenced at the Anbang group of companies and subsequently worked as director of strategy, director of IT and director of risk. She also was director at Hexie Health, and Anbang Annuity Insurance, both part of Anbang. Wu is non-executive member and chairwoman of Anbang Belgium Holding NV and Bank Nagelmackers NV.

J.C.A. (Jeroen) Potjes

J.C.A. (Jeroen) Potjes (1965) is chief operating officer of the Executive Board. He holds a master's degree in econometrics from Erasmus University Rotterdam as well as a doctorate in economics from the same university. Potjes joined ING Verzekeringen in 1992; he started out at the head office before being assigned to Japan between 1997 and 2001 and to Hong Kong until 2008; in Hong Kong, he served as chief financial officer of the insurance business and asset manager of ING Asia Pacific. He returned to the Netherlands in 2008, when he became responsible for the risk management practices of the global insurance business of ING and subsequently NN Group. During this period, Potjes also had a seat on the supervisory board of ING Re, ING's reinsurance business. Potjes joined Anbang in 2015, one of his roles being that of non-executive director of Anbang Belgium Holding NV. Potjes is also a member of the committee life insurance of the Association of Insurers and a member of the board of SIVI, member of the Supervisory Committee of Zwitserleven PPI and chairman of the Supervisory Board of NV Pensioen ESC (Curaçao).

4.3. Governing Rules

VIVAT Schade adheres to the Code of Conduct of Insurers 2018.

VIVAT Schade is required by law to have at least 30% men or 30% women on the board of directors. VIVAT Schade aims to have at least 40% men or 40% women on the Executive Board in the future. In case of a vacancy, we will always aim to find the best candidate for the position. When more candidates show equal qualities, we will give preference to the person that will help us reach the intended gender balance. Currently the Executive Board of VIVAT Schade is composed of four men (67%) and two women (33%). Similar requirements apply to the Supervisory Board, which have been included in chapter 4.4.

The governing rules of VIVAT Schade are set out in the articles of association and regulations of the Executive Board of VIVAT Schade. Under the articles of association and regulations, certain decisions of the Executive Board are subject to the approval of its shareholder and/or the Supervisory Board of the relevant company or companies. The members of the Executive Board of VIVAT NV are the same as the management board members of VIVAT Schadeverzekeringen NV.

As part of the continuing education programme of VIVAT Schade, the Executive Board members participate in various education sessions. These sessions are sometimes attended together with the Supervisory board members or with senior management of VIVAT Schade and are provided by internal and external speakers. The continuing education programme this year included sessions such as Sanction Laws, Pega as strategic enabler of value chain Digitalisation and Data and Ethics.

4.4. The Supervisory Board

The Supervisory Board is responsible for overseeing the Executive Board's conduct and general business management. It has an important role in the company's governance, by approving or dismissing significant business-related decisions.

Meetings of the Supervisory Board

The Supervisory Board meets on a regular basis in accordance with an annual schedule, which in practice implies two-day meetings every six weeks on average. The Supervisory Board has drawn up regulations that elaborate and expand on several provisions from the articles of association. These regulations set out additional powers. All members of the Supervisory Board have declared their acceptance of the substance of these regulations and have undertaken to abide by the rules contained therein.

Composition, Appointment and Role

The Supervisory Board as of 31 December 2019 consists of the following:

Name	Nationality	Position	Date of appointment
M.W. (Maarten) Dijkshoorn	Dutch	Chairman	23 December 2016
M.R. (Miriam) van Dongen	Dutch	Member	26 July 2015
M. (Ming) He	American	Member	26 July 2015
K. (Kevin) Shum	British	Member	26 July 2015
P.P.J.L.M.G. (Pierre) Lefèvre	Belgian	Member	26 July 2015

M.W. (Maarten) Dijkshoorn

M.W. (Maarten) Dijkshoorn was appointed as chairman of the Supervisory Board on 23 December 2016. He is a member of the remuneration and nomination committee, a member of the risk committee and a member of the audit committee. Dijkshoorn has worked in the financial services industry for more than forty years. From 2002 to 2009, Dijkshoorn was chief executive officer and chief operational officer of Eureko BV (Achmea). Prior to that, Dijkshoorn held various management functions within Nationale-Nederlanden for twenty-five years. He was supervisory board member of PGGM, Monuta and MediRisk, and he was chairman of the supervisory board of de Goudse Verzekeringen NV.

M.R. (Miriam) van Dongen

M.R. (Miriam) van Dongen was appointed as member of the Supervisory Board on 26 July 2015. She is chair of the audit committee and member of the risk committee and member of the remuneration and nomination committee. She has over twenty five years of experience in corporate finance, business strategy and in the financial services industry. Miriam is a non-executive board member by profession and holds various supervisory board positions and is the chair of the audit committees of these supervisory boards. Miriam currently serves as supervisory board member and chair of the audit committee of PGGM NV and Optiver. She is also member of the Supervisory Council and chair of the audit committee of The Netherlands' Kadaster (Land Registry) and board member of Stichting Administratiekantoor Aandelen KAS BANK.

M. (Ming) He

M. (Ming) He was appointed as member of the Supervisory Board on 26 July 2015. He is member of the audit committee. He went to Chengdu University of technology in China for his college education and completed a bachelor degree in 1982. He obtained a master's degree at Bowling Green State University in 1992 and a MBA at the American Graduate School of International Management in 1998. He started his career at the Superior Environment Corporation in 1992 as an environmental engineer. In 2009, he joined Anbang Insurance Group Co., Ltd. as chief investment director of Anbang Property & Casualty Insurance Co., Ltd.

In 2012 he was appointed as director and general manager of Anbang Asset Management. Ming He became chief executive officer of Anbang Belgium Holdings NV and Chairman of Board of Bank Nagelmackers in 2016. He was chief executive officer of AB Win Win II LP.

P.P.J.L.M.G. (Pierre) Lefèvre

P.P.J.L.M.G. (Pierre) Lefèvre was appointed as member of the Supervisory Board on 26 July 2015. He is chairman of the risk committee and member of the audit committee. After his studies in mechanical engineering and industrial administration, Lefèvre became internal auditor at Unilever before joining AXA Belgium NV in Belgium as a financial controller. He continued his career with AXA Belgium as general manager for Individual Life and later on as general manager for P&C Personal Lines. In 1994, he moved to AXA Insurance (United Kingdom) as chief executive officer of the P&C insurance business and was subsequently appointed chairman of the board. In 1998 he was appointed as chairman of the executive board of AXA Netherlands. Between 2002 and 2013 Lefèvre fulfilled various chief executive officer roles in subsidiaries of Groupama SA. Since 2013, Lefèvre has acted as independent non-executive director and chair of the risk committee of Hasting Group Holdings PLC and, since 2014, as senior advisor of Eurohold Corporate Finance, SL. He also serves as an independent non-executive director and chairman of the risk committee of Advantage Insurance Company Limited and as non-executive director of Anbang Belgium Holding NV. He is also an independent non-executive director, member of the nomination and governance committee and chairman of the audit, risk and compliance committee of Fidea NV.

K. (Kevin) Shum

K. (Kevin) Shum was appointed as member of the Supervisory Board on 26 July 2015. He is chair of the remuneration and nomination committee and member of the risk committee. With over twenty years' experience in the financial industry, Shum is a qualified solicitor of England & Wales, a solicitor of Hong Kong, a member of the Chartered Institute of Arbitrators in the United Kingdom and is a Chartered Financial Analyst in the United States. Previously, Shum worked as a private practitioner at Coudert Brothers LLP and Jun He Law Offices, as Legal Counsel for private equity firm Alliance Capital Asia Limited, a hedge fund of CCIB Asset Management Co. Limited and as Executive Director, Legal & Compliance, for Anbang Overseas Holdings Co. Limited. He currently serves as General Counsel for the Logan Family Trust and is a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen.

4.5. Report of the Supervisory Board

Functioning of the Supervisory Board

The Supervisory Board aims to have a strong representation of diversity in terms of experience, gender, age, professional and cultural background. In accordance with the regulations of the Supervisory Board, the Supervisory Board considers complementarity, collegial collaboration, independence and diversity to be conditions for a proper performance of duties by the Supervisory Board.

VIVAT Schade is required by law to have at least 30% men or 30% women on the Supervisory Board. VIVAT Schade aims to have at least 40% men or 40% women on the Supervisory Board in the future. Due to appointments in the past, the Supervisory Board currently is composed of four men (80%) and one woman (20%).

All members have confirmed the moral and ethical conduct declaration, which includes the need to make a balanced assessment of the interests of customers, shareholder, bondholders, employees and the society in which the company operates. The regulations of the Supervisory Board explicitly provide that the Supervisory Board shall strike a careful balance between the interests of the company's stakeholders, such as the clients of the company, shareholder and employees.

Self-assessment

The Supervisory Board carries out a self-assessment once every three years facilitated by an external consultant. This was done in 2016. In 2018, the Chairman of the Supervisory Board conducted individual interviews with the members of the Supervisory Board based on the outcome of a questionnaire that each individual board member filled out. The questionnaire was used as a supporting tool to evaluate the functioning of the Supervisory Board as a whole, the functioning of the individual committees, the individual supervisory directors and their relationship with the Executive Board during 2018. The outcome of this self-assessment was in line with the expectations. It was discussed within the Supervisory Board and with the Executive Board. Actions have been taken where necessary. Due to the strategic review and the imminent sale of VIVAT, the Supervisory Board did not conduct a self-assessment in 2019.

Continuing Education

Members of the Supervisory Board are encouraged to maintain their expertise at the required standard and enhance it where necessary. This year, the Supervisory Board focused on overseeing the company's sales process. Sessions related to risk management, financial reporting and audit were organised during the meetings of the Supervisory Board.

Important Topics and Key Discussions

The formal meetings of the Supervisory Board took place every six weeks (on average). Many additional meetings and conference calls were held. The attendance rate at meetings and committees is high, demonstrating the strength of the Supervisory Board's commitment. None of the Supervisory Board members were frequently absent at these meetings, meaning that there was always a valid quorum. During the formal meetings the Supervisory Board was updated on strategic activities and topical issues. Furthermore, the Supervisory Board was informed about the discussions and the resulting recommendations from committee meetings of the Supervisory Board.

In 2019 the Supervisory Board discussed and approved several items, such as topics related to the sale of VIVAT (process, integration, Migration and Human Capital), Operational Plan, Employee Survey and Aftercare unit linked policies. During the sale process of VIVAT the Supervisory Board safeguarded the corporate interest and properly weighed the interest of all stakeholders involved in this process such as policy holders, Anbang, employees and its bondholders.
The Supervisory Board and the Chairman of the Supervisory Board have been in regular contact with other stakeholders of VIVAT Schadeverzekeringen NV, the Dutch Central Bank (DNB) and Dutch Authority for Financial Markets (AFM) on these topics.

Cooperation with Committees

The Supervisory Board has three committees: the Audit Committee, the Risk Committee and the Remuneration and Nomination Committee. Each member of the Supervisory Board has sufficient knowledge and experience to assess the main aspects of VIVAT Schade's policy and to form an independent opinion of the basic risks. Decisions regarding risk management and internal control are prepared and recommended by the Risk Committee (RC) and the Audit Committee (AC), respectively. These committees have been carefully composed with at least two members of these committees having knowledge of risk management / risk control and internal control / reporting, respectively.

> The Audit Committee discussed the audit scope, key audit matters, the external auditor's reports and the management letter of the external auditor. The independence of the external auditor and fees were also reviewed by the Audit Committee. The Audit Committee maintains regular contact with the external auditor through meetings between the chair of the Audit Committee and the external auditor. The Audit Committee discussed the annual plan and quarterly reports of the internal audit function and evaluated the functioning of Internal Audit. The Audit Committee noted and discussed VIVAT Schade's consultations with DNB and considered the results of the on-site examinations conducted by the DNB.

> The Risk Committee discussed the profile of the financial and non-financial risks related to the approved risk appetite. This included capital developments, capital generation and investment policy. The structure and operation of the risk control system was discussed, including compliance with relevant legislation and regulations such as Sanctions law, Wwft and GDPR. Furthermore, the Risk Committee discussed amongst others the Risk model landscape and Brexit.

> The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on remuneration regarding Identified Staff and employees in control functions. The ReNomCo members have sufficient expertise with regard to remuneration policies, culture and incentives.

The committees met in the presence of members of the Executive Board. The external auditors were represented by mutual agreement at all meetings of the Committees in 2019. Both the internal auditor and external auditor reported on the quality and effectiveness of governance, internal control and risk management. Cooperation between the Supervisory Board and the committees has been positive. The meetings of the committees elaborate on various subjects, so that the decisions of the Supervisory Board can be carefully prepared. The content of the meetings of the committees is fed back to the meeting of the Supervisory Board to ensure that the Supervisory Board members are kept fully informed and are well positioned to take wise decisions.

The Supervisory Board appreciates all the efforts made by the Executive Board and all employees in 2019 and looks forward to continuing this cooperation in 2020.

Amstelveen, the Netherlands, 30 March 2020
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.6. Remuneration

Introduction

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. All employees are employed by VIVAT. The Group Remuneration Policy VIVAT applies to all employees working under the responsibility of VIVAT. The costs of employees appointed to VIVAT Schade are charged to VIVAT Schade by VIVAT. The remuneration information in this paragraph is presented on VIVAT level and as far as it applies to VIVAT Schade.

The remuneration paragraph describes the principles, governance and elements of the remuneration policies (4.6.1). It also gives an overview of the payment of (variable) remuneration in 2019 (4.6.2), as well as the actual remuneration of the members of the Executive Board and Supervisory Board (4.6.3).

4.6.1. Remuneration Policies

It is VIVAT Schade's ambition to be a good and inspiring employer. The primary objective of the remuneration policy is to enable VIVAT Schade to recruit, retain and motivate employees and to stimulate high performance. The policy aligns with and strengthens its strategy and core values. It is prudent, moderate and sustainable and meets the requirements of risk policy and applicable legislation and regulations. VIVAT Schade ensures long-term value creation and has chosen to use four Sustainable Development Goals (SDG) as a guideline for further development of the Corporate Social Responsibility policy in business operations. One of these SDGs is linked to our HR principles for remuneration.

The Group Remuneration Policy VIVAT applies to all employees working under the responsibility of VIVAT NV including VIVAT Schadeverzekeringen NV. Besides the Group Remuneration Policy, specific remuneration policies are applicable to Above-CLA employees and Executive Board.

Principles

Every remuneration policy is based on the following principles:

- It supports VIVAT Schade's corporate strategy, and is aligned with the mission and values of VIVAT Schade;
- It is compliant with the applicable legal rules and regulations;
- It may not threaten VIVAT Schade's ability to maintain an adequate capital base;
- It takes into account the interests of all stakeholders of VIVAT Schade: customers, employees, shareholders and society;
- It is transparent, easy to understand and simple to execute;
- It fits in with VIVAT Schade's ambition to be a socially responsible and innovative insurance company;
- It fits the risk profile of VIVAT Schade and of the relevant employee;
- It supports the attraction and retention of qualified employees that fit the job;
- It encourages high team and company performance; and
- It is gender and age neutral.

Governance

The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of VIVAT Schadeverzekeringen

NV. The Group Remuneration Policy was established by the Executive Board and approved by the Supervisory Board after, insofar as applicable, fulfilment of any rights of the Works Council.

The general meeting adopted the Group Remuneration Policy and the remuneration policy for the members of the Executive Board after consultation with the Supervisory Board. The Supervisory Board’s Remuneration and Nomination Committee (ReNomCo) prepares decisions on Remuneration policies as well as remuneration regarding Identified Staff and employees in control functions. The Executive Board is responsible for the implementation of the remuneration policies. The Group Remuneration Policy is externally published on our website: www.vivat.nl.

The Remuneration Policies are based on and in line with the Financial Undertakings Remuneration Policy Act (*Wet Beloningsbeleid Financiële Ondernemingen*) which is incorporated in the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht* or **FMSA**), the Commission Delegated Regulation (EU) 2015/35 (**Solvency II**) and the Guidelines on System of Governance of the European Insurance and Occupational Pensions Authority (**EIOPA Guidelines**).

Identified Staff

Every year, VIVAT designates members of staff as ‘Identified Staff’ on the basis of applicable laws, rules and regulations. In order to establish the list of identified employees, we use Solvency II regulation as of 2018.

VIVAT has established a Working Group Identified Staff comprising of the directors of HR, Legal, Financial Risk, Non Financial Risk and Audit (**Working Group Identified Staff**). The Working Group Identified Staff may provide and will at request provide input on any decision of the Executive Board and the Supervisory Board on the list of any Identified Staff as well as any decisions on remuneration in relation to Identified Staff.

Elements of the Remuneration Policies

Fixed Annual Salary

The fixed annual gross salary consists of a fixed annual gross salary, which includes a holiday allowance of 8% and a 13th-month payment of 8.33% and, to the extent applicable, other fixed allowances. The annual gross salary is based on the applicable salary scales. According to the CLA employees are entitled to an annual increase. This periodic increase in salary is linked to the extent to which the employee is judged to have grown in his or her role (achievement on competences) and depends on the relative salary position. The precise link between the competency assessment and the pay rise, is as follows: Insufficient: 0.0%; Almost sufficient: 0.0%; Good: 2.6%; Very good: 3.3%; Excellent: 4.0%. Awarding this increase is also subject to financial criteria at the level of VIVAT (knock-out).

The process regarding the annual salary increase for the Above-CLA employees follows the process as described above, applicable for the employees in the CLA. Increase of the salaries of the members of the Executive Board is only possible after adopting a proposal of the Supervisory Board in the general meeting of the shareholder.

Job functions at VIVAT are independently evaluated. The outcome of this evaluation results in a certain salary scale for such function.

Total direct compensation is the total of fixed and variable remuneration (for VIVAT Schade only the total of fixed remuneration as we abolished variable remuneration within VIVAT), excluding benefits such as pension and allowances. We aim to provide total direct compensation levels for expected business and individual performance which, on average, are at the median of the markets in which we operate, benchmarked against relevant peer groups. To ensure we adhere to this policy, we monitor and benchmark salary levels. Fixed remuneration represents a sufficiently high proportion of the total direct compensation, which is in line with the level of expertise, years of experience and required skills.

Pension

Nearly all employees participate in the same pension scheme of VIVAT. The current scheme is a Collective Defined Contribution (CDC) pension scheme, which is based on a pension accrual including an employee contribution of 4.5%. The scheme qualifies as a defined contribution scheme for IAS 19 purposes. The contributions are paid by VIVAT and employees respectively as employer and employee contributions. For employees who were employed as per 31 December 2017 and with a salary exceeding the maximum pensionable salary for pension accrual, a compensation of 16.35% on an employee's pensionable salary in excess of € 107,593 is applied. The permanent supplement payment is not pensionable and is not taken into account for the calculation of severance payments, including the transition fee (*transitievergoeding*) or any other wage components or benefits.

Variable Remuneration

As of 2018 VIVAT abolished the performance related bonus in the CLA and abolished the variable remuneration for the Executive Board and Above-CLA employees (Senior Management).

Sign-on Bonus & Retention Bonus

VIVAT exercises great restraint when agreeing such arrangements as sign-on bonus or retention bonus. Such arrangements may be agreed only if they are approved in accordance with legislation and regulations and approved in accordance with VIVAT's governance.

Other Benefits

Depending on the position on the salary scale, Above-CLA employees and some (senior) managers are eligible for a lease car or a lease car allowance. As part of VIVAT's commitment to sustainable investment principles, certain types of cars and certain brands are no longer included in this policy, however exceptions are made for 100% electric models.

Hold Back & Claw Back

VIVAT has the power to hold back or claw back all or part of any variable pay awarded (Section 135 (6 & 8), Book 2 of the Dutch Civil Code in connection with Wft Section 1:127 Subsection 2 & 3). Whole or partial hold back or claw back will take place in any case if the employee has not met relevant competence standards and standards for appropriate conduct, or was responsible for conduct that led to a considerable deterioration of the financial position of VIVAT NV and/or VIVAT Schadeverzekeringen NV.

Severance Payment

If and insofar a severance payment is due to an employee, such payment will be equal to the transitional fee within the meaning of article 7:673 of the Dutch Civil Code unless (i) the relevant employee can benefit from a different arrangement as explicitly agreed upon in an applicable social plan or (ii) otherwise determined at the discretion of the Executive Board or, where it relates to Above-CLA employees and Identified Staff, the Remuneration and Nomination Committee and approved by the Supervisory Board. VIVAT has agreed upon an extension of one year of VIVAT's Social Plan 2018-2019 with the unions which is applicable in case of reorganisation(s).

4.6.2. Overview Remuneration 2019

Fixed Remuneration

According to the CLA employees have received a periodic salary increase on 1 February 2019. The periodic salary increase for Above-CLA employees was also based on the CLA. There was no collective salary adjustment (CLA) in 2019. Salaries of the members of the Executive Board were not increased. This has not been proposed since 2015.

The trade unions have asked VIVAT to start negotiations for the collective labour agreement in 2020. Given the strategic reorientation, a new CLA can only be discussed once the sale has been completed and the buyer's strategy is clear. As a result, the trade unions have asked the employer to offer a one-off payment to compensate the employees for the delay in negotiations on a new collective labour agreement as of 1 January 2020 and for the uncertain situation the company is currently in.

The employees employed on 31 December 2019 received a one-off payment of a monthly salary based on their gross December salary excluding any allowances and/or compensations. When an employee started working after 1 January 2019, a proportional part of this one-off payment was paid to the employee in December 2019. The Executive Board will not receive this one-off payment.

Target Setting

The performance management cycle started with setting the performance targets in the first quarter of 2019 for the Executive Board and Above-CLA employees. These targets are in line with the company targets and the company's mission. More than 50% of the KPIs set were non-financial related KPIs. For employees in control functions such as Risk, Audit and Compliance departments, no financial KPIs were set. The KPIs were related to maintaining customer advocacy, sound and controlled organisation, a financial KPI and one or more individual KPIs. Besides KPIs also competences were set: result driven, change attitude and collaboration. Following the target setting for Executive Board and Above-CLA employees, employees set their KPIs and competences. These personal development skills (max three) are chosen from the company's broad set of values with one general: result driven.

Variable Remuneration

In 2019, no variable remuneration was paid.

Retention Bonus

Due to the announced strategic review by the shareholder, at the end of 2018 VIVAT offered a retention scheme to a group of employees. In 2019 a second retention scheme was offered to another group of employees. This also includes employees of VIVAT Schade. The vesting and payment of these schemes are subject to certain conditions and law and regulations, which contains deferred payment for Identified Staff. VIVAT received the approval of the regulatory authorities before offering these retention schemes.

For the Executive Board members we refer to the disclosure of the remuneration of the Executive Board in Note 14 Related parties in the consolidated financial statements.

Number of Employees with a Remuneration Exceeding € 1 Million

In 2019, one employee received a total remuneration exceeding € 1 million.

4.6.3. Actual Remuneration (former) Members of the Executive Board and the Supervisory Board

Reference is made to Note 14 Related parties (Intragroup balances with key management personnel of VIVAT Schade) for the actual remuneration of (former) members of the Executive Board and the Supervisory Board.

Financial Statements

5. Consolidated Financial Statements

5.1. Consolidated Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2019	31 December 2018
> Assets			
Intangible assets	1	-	385
Investments	2	1,594,777	1,556,734
Derivatives	3	50,964	23,307
Reinsurance share	8	65,088	83,233
Other assets	4	62,328	60,341
Cash and cash equivalents	5	46,328	49,909
Total assets		**1,819,485**	**1,773,909**
> Equity and liabilities			
Share capital[2]		10,898	10,898
Reserves		387,933	325,677
Total shareholders' equity	6	**398,831**	**336,575**
Subordinated debt	7	150,000	150,000
Insurance liabilities	8	1,082,734	1,134,709
Provision for employee benefits	9	28,286	24,552
Derivatives	3	-	5,945
Deferred tax	10	12,358	3,076
Amounts due to banks	11	52,226	17,049
Corporate income tax		11,169	2,482
Other liabilities	12	83,881	99,521
Total equity and liabilities		**1,819,485**	**1,773,909**

[1] The references relate to the notes to the consolidated financial statements in Section 6.3
[2] The authorised share capital amounts to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares with a total amount of € 11,350,000 are issued of which an amount of € 10,898,420.62 is paid up.

5.2. Consolidated Statement of Profit or Loss

In € thousands	Notes[1]	2019	2018
> Income			
Premium income		789,353	723,422
Less: Reinsurance premiums		46,384	44,322
Net premium income	16	**742,969**	**679,100**
Fee and commission income		1,606	1,855
Fee and commission expense		–	–
Net fee and commission income	17	**1,606**	**1,855**
Share in result of investments held for sale		–	3,752
Investment income	18	18,047	21,396
Result on derivatives	19	31,693	6,650
Total income		**794,315**	**712,753**
> Expenses			
Technical claims and benefits	20	417,160	422,534
Acquisition costs for insurance activities	21	164,968	154,145
Staff costs	22	86,379	85,070
Depreciation and amortisation of non-current assets		385	658
Other operating expenses	23	25,646	29,863
Impairment losses (reversals)	24	2,697	-318
Other interest expenses	25	10,521	10,669
Total expenses		**707,756**	**702,621**
Result before tax		**86,559**	**10,132**
Tax expense	26	21,001	495
Net result continued operations for the period		**65,558**	**9,637**

> Attributable to:			
- Shareholder		65,558	9,637
Net result continued operations for the period		**65,558**	**9,637**

[1] The references relate to the notes to the consolidated financial statements in Section 6.3.

5.3. Consolidated Statement of Total Comprehensive Income

Consolidated Statement of Other Comprehensive Income

In € thousands	Notes[1]	2019	2018
> OCI not to be reclassified subsequently to profit or loss			
Changes in valuation of defined benefit pension plan	9	-1,112	2,231
Change in other reserves		-	-27
Income tax relating to items that never be reclassified	10, 27	278	-558
Tax rate reduction adjustment relating to items that never be reclassified	10, 27	-51	60
Net OCI never reclassified to profit or loss		**-885**	**1,706**
> OCI to be reclassified subsequently to profit or loss			
Unrealised revaluations investments available for sale	27	-2,503	-25,312
Impairments and reversals fair value reserve	27	-8	-44
Realised gains and losses fair value reserve transferred to profit or loss	27	2,814	-8,873
Income tax relating to items that may be reclassified	10, 27	-2,820	6,015
Tax rate reduction adjustment relating to items that may be reclassified	10, 27	100	1,193
Net OCI to be reclassified to profit or loss subsequently		**-2,417**	**-27,021**
Other comprehensive income (net of tax)	27	**-3,302**	**-25,315**

[1] The references relate to the notes to the consolidated financial statements in Section 6.3

Statement of Total Comprehensive Income

In € thousands	2019	2018
Net result for the period	65,558	9,637
Other comprehensive income (net of tax)	-3,302	-25,315
Total comprehensive income (net of tax)	**62,256**	**-15,678**
> Attributable to:		
- Shareholders	62,256	-15,678

5.4. Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Shareholders' Equity 2019

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Retained earnings	Sum of reserves	Total shareholders' equity
Balance as at 1 January 2019	**10,898**	**464,437**	**48,358**	**-187,118**	**325,677**	**336,575**
Other comprehensive income	–	–	-2,417	-885	**-3,302**	**-3,302**
Net result 2019	–	–	–	65,558	**65,558**	**65,558**
Total comprehensive income 2019	**-**	**-**	**-2,417**	**64,673**	**62,256**	**62,256**
Total changes in equity 2019	**-**	**-**	**-2,417**	**64,673**	**62,256**	**62,256**
Balance as at 31 December 2019	**10,898**	**464,437**	**45,941**	**-122,445**	**387,933**	**398,831**

[1] The authorised share capital amounts to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares with a total amount of € 11,350,000 are issued of which an amount of € 10,898,420.62 is paid up.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2018, no dividends for 2019.

Consolidated Statement of Changes in Shareholders' Equity 2018

In € thousands	Issued share capital	Share premium	Fair value reserve	Retained earnings	Sum of reserves	Total shareholders' equity
Balance as at 1 January 2018	**10,898**	**464,437**	**75,379**	**-198,461**	**341,355**	**352,253**
Other comprehensive income	–	–	-27,021	1,706	**-25,315**	**-25,315**
Net result 2018	–	–	–	9,637	**9,637**	**9,637**
Total comprehensive income 2018	**-**	**-**	**-27,021**	**11,343**	**-15,678**	**-15,678**
Total changes in equity 2018	**-**	**-**	**-27,021**	**11,343**	**-15,678**	**-15,678**
Balance as at 31 December 2018	**10,898**	**464,437**	**48,358**	**-187,118**	**325,677**	**336,575**

Statement of Changes in Fair value Reserve

In € thousands	2019	2018
Balance as at 1 January	**48,358**	**75,379**
Unrealised revaluations	-2,503	-25,312
Impairments and reversals	-8	-44
Realised gains and losses transferred to profit or loss	2,814	-8,873
Income tax	-2,820	6,015
Tax rate reduction adjustment	100	1,193
Total changes in equity	**-2,417**	**-27,021**
Balance as at 31 December	**45,941**	**48,358**

5.5. Consolidated Cash Flow Statement

In € thousands	2019	2018[1]
> Cash flow from operating activities		
Operating profit before tax	86,560	10,132
> Adjustments for non-cash items included in profit before tax:		
Depreciation and amortisation of non-current assets	385	658
Amortisation of investments	18,837	17,335
Change in provision for employee benefits	-249	-
Impairment charges / (reversals)	2,697	-318
Unrealised results on investments through profit or loss	-30,210	-6,650
> Change in operating assets and liabilities:		
Change in amounts due to banks	35,177	1,382
Change in investments	1,591	-1,077
Change in derivatives	-2,460	-5
Change in other assets	-7,339	31,139
Change in insurance liabilities	-33,830	-17,229
Change in other liabilities	-15,640	-400
Net cash flow from operating activities	**55,519**	**34,967**
> Cash flow from investment activities		
Proceeds from sale of assets held for sale	-	7,335
Sale and redemption of investments and derivatives	1,642,851	1,198,195
Purchase of investments and derivatives	-1,701,951	-1,238,230
Net cash flow from investment activities	**-59,100**	**-32,700**
> Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**-3,581**	**2,267**
Cash and cash equivalents 1 January	49,909	47,642
Cash and cash equivalents as at 31 December	**46,328**	**49,909**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	32,014	33,666
Dividends received	2,547	1,157
Interest paid	10,411	10,567

[1] Change in insurance liabilities of € (17,229) million have been reclassified for comparison purposes. This change in classification does not affect previously reported cash flow from operating activities. Comparitive figures related to change in other operating activities of € (1,077) million have been renamed to change in investments € (1,077) million.

6. Notes to the Consolidated Financial Statements

6.1. Accounting Policies for the Consolidated Financial Statements

6.1.1. General Information

VIVAT Schadeverzekeringen NV, incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. VIVAT Schadeverzekeringen NV is a wholly owned subsidiary of VIVAT NV with a registered office at Utrecht, the Netherlands and VIVAT NV is a wholly owned subsidiary of Anbang Group Holdings Co. Limited with a registered office at Hong Kong, People's Republic of China, whose ultimate parent is China Insurance Security Fund Co., Ltd. with its headquarters in Beijing, People's Republic of China.

VIVAT Schadeverzekeringen NV has its registered office located in Amstelveen, the Netherlands and has its principal place of business located at Burgemeester Rijnderslaan 7, 1185 MD in Amstelveen, the Netherlands. The registration number at the Dutch Chamber of Commerce Trade is no. 37010992. VIVAT Schadeverzekeringen NV is a provider of property & casualty and disability insurance products.

In the consolidated financial statements within this annual report the name 'VIVAT Schade' is used.

The consolidated financial statement combines the financial statements of VIVAT Schadeverzekeringen NV (the parent company) and its subsidiaries (see Section 6.3, note 30 List of principal subsidiaries).

The key accounting policies and the changes herein used in the preparation of VIVAT Schade's consolidated financial statements are set out in this section.

Adoption of the Financial Statements

The consolidated financial statements of VIVAT Schadeverzekeringen NV for the year ended on 31 December 2019 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 30 March 2020. The financial statements will be submitted to the General Meeting of Shareholders for adoption.

6.1.2. Basis of Preparation

Statement of IFRS Compliance

VIVAT Schade prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Relevant New standards, Amended Standards and Interpretations of Existing Standards Effective as of 2019

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. New or amended standards that become effective as of 1 January 2019 and that are relevant to VIVAT Schade are disclosed below.

IFRS 16

This standard became effective as of 1 January 2019 and supersedes IAS 17. IFRS 16 provides specific guidance on the recognition, measurement, presentation and disclosures of lease contracts, both for lessors and lessees. As VIVAT Schade has not entered into any lease agreements, this standard does not have impact on the financial statement.

Amendments to IAS 12

In December 2017 IASB issued Annual Improvements to IFRS Standards 2015–2017 Cycle, which become effective as at 1 January 2019. One of the amendments corresponded to IAS 12.

The amended standard provides clarity with regard to the income tax consequences of distributions of profits to holders of equity instruments. They should be recognised together with a liability to pay a dividend either in profit or loss or in other comprehensive income or equity according to where the entity originally recognised past transactions or events that generated the distributable profits.

The amendment does not have any impact on VIVAT Schade as it made no distributions of profits that are in scope of the standard.

Relevant New Standards, Amended Standards and Interpretations of Existing Standards Effective Date on or after January 2020

Relevant new standards, amendments to existing standards and interpretations, effective for reporting periods beginning on or after 1 January 2020, were not early adopted by VIVAT Schade. New or amended standards that become effective on or after 1 January 2020 and that are relevant to VIVAT Schade are disclosed below.

IFRS 9 Financial Instruments

IFRS 9, the new standard on financial instruments has an effective date of 1 January 2018. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes new requirements for the recognition and measurement of financial assets and liabilities, a new forward looking model for the recognition of impairment losses and a new regulation in order to better align hedge accounting with economic reality and risk management. However, since VIVAT Schade has decided to apply the temporary exemption from applying IFRS 9, the implementation of IFRS 9 by VIVAT Schade has been postponed until 1 January 2022, the effective date of IFRS 17.

Since financial instruments constitute a significant item in VIVAT Schade's consolidated financial statements, it is expected that the introduction of IFRS 9 will have a significant impact on VIVAT Schade's financial statements.

IFRS 17 Insurance contracts

On 18th May 2017 the IASB has issued IFRS 17, the new comprehensive standard on insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 the current standard on insurance contracts. IFRS 4 allows insurers to continue their previous local accounting policies for the measurement of insurance contracts. IFRS 17 provides a comprehensive model (the general model) for the measurement of insurance contracts with a long duration and the premium allocation approach mainly for short duration insurance contracts.

The main features of the new accounting model for insurance contracts comprise:

- Measurement of insurance liabilities is based on the present value of probability weighted future cash flows to fulfill the contract, increased with a risk adjustment to reflect uncertainties in these cash flows.
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfillment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the coverage period of the contract.
- The recognition of insurance revenue and insurance service expenses in profit or loss based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance investment income and expenses.
- The effects of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- Extensive disclosures to provide information on the recognised amounts and the nature and extent of risks arising from these contracts.

In June 2019 the IASB published exposure draft of Amendments to IFRS 17, in which the effective date of IFRS 17 is amended to 1 January 2022. Retrospective application of the standard is required. Early adoption is permitted. VIVAT Schade plans to adopt IFRS 17 per 1 January 2022.

The adoption of IFRS 17 will have a significant effect on VIVAT Schade’s consolidated financial statements, systems and data requirements. A new governance structure has been put in place combining implementation of IFRS 17 and IFRS 9. The new governance structure stipulated a new program manager, various teams and product owners defined, identified and recruited for the project. VIVAT Schade has also identified several solutions for the CSM tooling. A temporary solution aimed at helping to perform the dry runs scheduled for the beginning of 2021 is identified and VIVAT Schade is currently preparing for a request for proposal process for a more solid solution going forward.

Changes in Policies, Presentation and Estimates

Changes in Policies

In 2019 there were no significant changes in policies.

Changes in Presentation

In 2019 there were no significant changes in presentation.

Changes in Estimates

The effects of significant changes in estimates are disclosed in the notes to the consolidated financial statements relating to the items concerned. The most significant changes in estimates concern the insurance liabilities (refer to note 8 'Insurance Liabilities').

6.1.3. General Accounting Policies

The accounting policies set out below have been applied consistently to all the periods presented in the consolidated financial statements.

Functional Currency and Reporting Currency

The consolidated financial statements have been prepared in thousands of euros (€). The euro is the functional and reporting currency of VIVAT Schade. All financial data presented in euros is rounded to the nearest thousand, unless stated otherwise. Totals are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

Foreign Currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date.

Monetary items in the statement of financial position denominated in foreign currencies are translated into euros at the exchange rate applicable at the reporting date. Exchange rate differences arising from these transactions and from converting monetary items in the statement of financial position denominated in foreign currencies are recognised in the statement of profit or loss within investment income or gains and losses on financial instruments, depending on the item in the statement of financial position to which they relate.

The exchange rate differences of non-monetary items in the statement of financial position measured at fair value, with changes in the fair value recognised in the statement of profit or loss, are accounted for as part of these changes in the value of the related item in the statement of financial position. Exchange rate differences of non-monetary items in the statement of financial position measured at fair value, with changes in the fair value being recognised in other comprehensive income, are incorporated into shareholders' equity. Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

Accounting Based on Transaction Date and Settlement Date

All purchases and sales of financial instruments that have been settled in accordance with standard market practices are recognised at the transaction date, i.e. the date on which VIVAT Schade commits itself to buying or selling the asset or liability. All other purchases or sales are recognised as forward transactions until they are settled.

Offsetting Financial Instruments

Financial assets and liabilities are offset and their net amounts are reported in the statement of financial position if the following conditions are met:

- a legally enforceable right to set off the recognised amounts exists,
- VIVAT Schade intends to settle the items on a net basis, or to realise the asset and the liability simultaneously.

If either of these conditions are not met, amounts are not offset.

Estimates and Assumptions

The preparation of the consolidated financial statements requires VIVAT Schade to make estimates and assumptions based on complex and subjective opinions and best estimates. In this process, management judges situations on the basis of available information and financial data that are likely to change in the future. Although estimates are made to the best of the management's knowledge, actual results will differ from these estimates and the use of other assumptions or data can lead to materially different results.

Estimates and underlying assumptions are reviewed on a regular basis. The resulting impact on accounting estimates is recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting policies involving the use of estimates concern the methods for determining liabilities arising from insurance contracts, the provision for employee benefits, the provisions for bad debts, the fair value of assets and liabilities, deferred tax and impairments.

Fair Value of Assets and Liabilities

Fair Value

The fair value is the price that VIVAT Schade would receive to sell an asset or to pay to transfer a liability in an orderly transaction between market participants in the principal market, or in the most advantageous market and assuming the highest and best use for non-financial assets.

Fair Value Hierarchy

The fair value of financial assets and liabilities is determined using quoted prices where available. These quoted prices are primarily derived from transaction prices for listed instruments. If transaction prices are not available, market prices from independent market participants or other experts are used. VIVAT Schade applies a transfer price when determining fair value; as a result, financial assets are initially recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain investment. Selecting the most appropriate price requires judgement; available market information relating to the fair value of the instrument is taken into account.

When no market price is available for certain financial assets and liabilities, the fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methodologies. Input used in these models is based on observable market information to the extent possible. All valuation methods used are assessed and reviewed according to the VIVAT Schade governance procedures.

6.1.4. Basis for Consolidation

Subsidiaries

Subsidiaries, i.e. all entities (including structured entities) that are controlled by VIVAT Schade, are consolidated. Control over companies and entities is assumed to exist if all of the following conditions are met:

- VIVAT Schade has power over a company or entity by means of existing rights that give VIVAT Schade the current ability to direct the relevant activities of the company or entity;
- VIVAT Schade has exposure or rights to variable returns from its involvement with the investee; and
- VIVAT Schade has the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to VIVAT Schade until the date this control ceases. The financial statements of these group companies are fully consolidated and aligned with the accounting policies applied by VIVAT Schade.

Non-controlling interests and their results are presented separately in the consolidated statement of financial position and the statement of profit or loss.

Elimination of Group Transactions

Intra-group transactions between VIVAT Schade and its subsidiaries, intra-group balances and unrealised gains and losses arising from these intra-group transactions are eliminated in the preparation of the consolidated financial statements.

6.1.5. Accounting Policies for the Statement of Financial Position

Intangible Assets

Software

Costs that are directly related to the development of identifiable software controlled by VIVAT Schade, that is expected to generate economic benefits in excess of these costs, are capitalised. The direct costs comprise external costs and staff costs directly attributable to software development. All other costs associated with the development or maintenance of software are expensed as incurred.

Capitalised software development costs are amortised on a straight-line basis over the asset's useful life, with a maximum of five years. An asset impairment test is performed at the end of each reporting period.

Financial Assets

VIVAT Schade classifies its financial assets in one of the following categories: (1) available for sale, or (2) loans and receivables. The classification depends on the purpose for which the financial assets are acquired. Management decides to which category the asset is allocated at initial recognition.

Upon initial recognition, financial assets are measured at fair value including transaction costs, with the exception of the category 'at fair value through profit or loss', in which transaction costs are recognised directly in the statement of profit or loss.

The categories of financial assets are explained in more detail in the following section.

VIVAT Schade measures its financial liabilities at amortised cost with the exception of derivatives and liabilities from investments for account of third parties. For more information see the corresponding sections.

Investments

Available for Sale (Fair Value Through Other Comprehensive Income)

Financial assets that do not meet the criteria defined by management for loans and receivables or are not designated as at fair value through profit or loss are classified as available for sale.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses arising from fair value adjustments of these investments are recognised within other comprehensive income (shareholders' equity), net of deferred taxes.

When financial assets are sold, any accumulated fair value adjustments are recognised in the statement of profit or loss as investment income. VIVAT Schade uses the average cost method to determine the related gains and losses.

Loans and Receivables (Amortised Cost)

Loans and receivables comprise unlisted debt investments with a fixed term. Loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment if deemed necessary.

Impairment of Financial Assets

At reporting date, VIVAT Schade assesses whether there is objective evidence of an impairment of investments classified as loans and receivables and as available for sale. Impairment losses are recognised directly in the statement of profit or loss as 'impairment charges'.

Investments in Fixed Income Instruments

Investments in debt securities measured at amortised cost or available for sale are tested for impairment if there is objective evidence of financial distress at the counterparty, declining markets for the counterparty's product or other relevant indicators. This test comprises both quantitative and qualitative considerations. Debt securities are assessed for aspects including expected credit losses and credit losses already incurred (e.g. due to default), market data on credit losses and other evidence of the issuer of the instrument's inability to meet its payment commitments.

The allowance for impairment losses also covers losses where objective evidence of losses likely to be incurred in the loan portfolio exists (IBNR: incurred but not reported).

When a loan is uncollectable, it is written off against the relevant allowance for impairment.

Investments in Equity Instruments

An investment in equity instruments is considered to have been subject to impairment if its carrying amount exceeds the recoverable value for an extended period, which means that its fair value:

- has decreased 25% or more below cost; or
- has been at least 5% below cost for nine months or more.

Depending on the availability of data, the fair value of unlisted equities is determined based on:

- the price of the most recent transaction (as an indication);
- current fair values of other, similar investments (in entities); or
- valuation methods in accordance with accepted economic methods that use market data to the extent possible.

Reversal of Impairments

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the impairment allowance is (partially) reversed. That reversal is recognised in profit or loss. Impairments on equity securities are never reversed.

Derivatives

General

Derivatives are recognised at fair value upon inception. The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and quoted offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. VIVAT Schade recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Changes in the fair value of derivatives, that do not qualify for cash flow hedge accounting, are accounted for in the statement of profit or loss as gains and losses on financial instruments.

Cash and Cash Equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Taxes

Income tax expense

Income tax relates to payable or recoverable tax on the taxable profit for the reporting period and taxes due from previous periods, if any. Current tax receivables and payables are measured using the tax rate applicable at the reporting date or the tax rate applicable to the previous period the taxes due relate to.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This is based on the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled.

Deferred tax assets and liabilities are measured at the undiscounted amount expected to be received or paid. Deferred tax assets are only recognised if sufficient taxable profits are expected to be available in the near future against which these temporary differences can be utilised. Deferred taxes are recognised for temporary differences between the carrying amount and the value for tax purposes.

Deferred tax assets are assessed at the reporting date; if it is no longer likely that the related taxable profit will be achieved, the asset is reduced to its recoverable value. Deferred tax assets and liabilities are presented on a net basis to the extent that they relate to the same tax authority and that they are settled simultaneously.

Tax group

During 2019 VIVAT NV and its subsidiaries, including VIVAT Schade, form a tax group for corporate income tax and value added tax (VAT) and as a result are jointly and severally liable for the fiscal unity's corporate income tax and VAT liabilities.

Reinsurance Share

Inbound reinsurance contracts

Other insurers use these contracts to transfer the insurance risk associated with their own insurance contracts to VIVAT Schade. These contracts qualify as inbound reinsurance contracts; the obligations from the insured risk and the deposit component are recognised as liabilities within insurance contracts in accordance with IFRS 4.

Outbound reinsurance contracts

By virtue of these contracts, VIVAT Schade is compensated for losses incurred on its own insurance contracts. Because of the transfer of significant insurance risks, the entire contract qualifies as an outbound (re)insurance contract. The liabilities from insurance risks and the deposit components are recognised as insurance liabilities in accordance with IFRS 4. The share of reinsurance companies in the insurance liabilities and the benefits to which VIVAT Schade is entitled by virtue of its reinsurance contracts are accounted for and presented as reinsurance assets. The receivables depend on the expected claims and benefits.

Because VIVAT Schade calculates its LAT on a net basis, the expected cashflow arising from the outbound reinsurance contracts are also included in the LAT calculation on insurance liabilities.

The amounts receivable from (claims), and payable to (premium) reinsurance companies are determined in accordance with the terms and conditions of each reinsurance contract and recognised in the period in which they incurred. Receivables from reinsurers are assessed for potential impairment due to credit risk, at the reporting date. The current outstanding amounts are presented under other assets or other liabilities.

Other Assets

Other assets consist of receivables from direct insurance policies, other taxes (including VAT, payroll tax), other receivables and accrued assets. Accrued assets also include the accrued interest on financial instruments measured at amortised cost, as well as other accruals, which include amounts receivable from the clearing counterparty with regard to derivative positions.

Equity

Issued share capital
The share capital comprises the issued and paid-in ordinary shares.

Reserves
Share premium reserve
The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares.

Fair value reserve
Gains and losses arising from changes in the fair value of assets that are classified as available for sale are recognised in the fair value reserve (net of taxes). If the particular assets are sold, settled or as a result of other events are no longer recognised; the corresponding cumulative gains and losses is then transferred from the fair value reserve to profit or loss (see the section entitled 'Financial assets'). Exchange rate differences on non-monetary financial assets that are classified as available for sale are also recognised in this reserve.

Subordinated Debt

Subordinated debt includes the subordinated bonds and private loans issued by VIVAT Schade. This debt is initially measured at fair value net of the transaction costs incurred. The debt is subsequently measured at amortised cost, using the effective interest method.

Insurance Liabilities

Insurance liabilities arise from insurance contracts. Insurance contracts are contracts that concern the transfer of significant insurance risk. These contracts can also involve investment risks. VIVAT Schade issues non-life insurance contracts. VIVAT Schade recognises insurance liabilities from the earliest of the beginning of the coverage period or the date on which the first payment of the policyholder becomes due.

For insurance liabilities IFRS requires a liability adequacy test to be performed. The carrying amount of the insurance liability based on historical cost and reduced by related intangible assets like the Value of Business Acquired (VOBA) and deferred acquisition costs (if applicable) is compared to the current estimates of future cash flows corresponding to the insurance liability. When the latter is higher, there is a deficit. Under IFRS 4, the carrying amount of the insurance liability has to be supplemented by this deficit, thus increasing the value of the insurance liability based on the current estimates of future cash flows.

Property and Casualty (P&C)
VIVAT Schade has continued applying the accounting policies in use at the time of transition to IFRS for the valuation of its P&C insurance contract liabilities since the first adoption of IFRS (the historically applied accounting policies). These insurance liabilities are measured at the higher of :
- the historic value based on the assumptions used to calculate the (guaranteed) premium and
- the minimum value according to the liability adequacy test.

P&C contracts are insurance contracts that provide coverage not related to the life or death of insured persons and provide coverage for a relative short period of time. VIVAT Schade's P&C insurance contracts can be divided into the following product groups: accident and health, motor vehicles, fire, transport, general liability and other.

Payments made after the occurrence of a specified insured event are either fixed (e.g. in the event of disability) or linked to the scale of the economic loss suffered by the policyholder (in accordance with the indemnity principle).

Disability Insurance Contracts

Disability insurance liabilities are measured based on historic actuarial and cost assumptions, unless the IFRS LAT result in a higher liability. IBNR and the claims handling reserve are measured using a fixed interest rate of 3% (and 4% for accident years until 1999), all other disability insurance liabilities are measured using current market interest rates.

Discounting

In accordance with general practice in the industry, VIVAT Schade does not discount the liabilities arising from non-life insurance contracts mentioned in this section, with the exception of disability insurance liabilities (refer to the section "Disability Insurance Contracts" above).

The details of the measurement principles for non-life insurance liabilities, comprising property and casualty insurance contracts and disability insurance contracts are described below:

Provision for Claims Payable

This provision is intended to cover claims arising from the current and preceding years that have not been settled at the reporting date. The provision is determined systematically on a claim-by-claim basis. In the case of disability claims, this provision is referred to as the provision for periodic payments.

Provision for Internal Claims Handling Costs

A separate provision for internal claims handling costs is formed as part of the provision for claims payable. This provision is an estimate of the expenses relating to payments to be made in respect of claims arising from insured events that have already occurred. The provision for internal claims handling costs is measured with a formula that applies the ratio of the annual amount of claim handling expenses over the annual claim payments and the carrying amount of the provisions. The calculations are performed per homogeneous risk group. The provision is reassessed periodically, based on business information as well as actuarial analysis derived from the most recent liability adequacy test.

Provision for Claims Incurred But Not Reported (IBNR)

This provision is intended for events that occurred prior to the reporting date but have not yet been reported at that date as well as for developments on claims that have already been reported. The IBNR is based on historically observed claim development statistics on which estimates are made for claims that have occurred, but are not yet reported or not yet enough reported at the reporting date. The IBNR provision is calculated on a monthly basis and reassessed quarterly, based on business information. The underlying assumptions are reassessed on a yearly basis.

Provision for Unearned Premiums

This provision reflects premiums related to the period of any unexpired coverage at the reporting date. The provision is equal to the unearned gross premiums and commission paid is deducted from the gross premium. The provision for unearned premiums is calculated separately for each insurance contract in proportion to the unexpired risk period.

The change in the provision for unearned premiums is recorded in the statement of profit or loss in order to recognise the income over the period of exposure to risk.

Provision for Unexpired Risks

The provision for unexpired risks has been formed to meet obligations resulting from:

- claims and claims handling expenses that may arise after the reporting date and which are covered by contracts issued prior to that date, insofar as the related estimated amount exceeds the provision for unearned premiums and the future premiums in relation to these contracts; and
- premiums received, both single and regular, for contracts with a fixed premium where the underlying risk increases over time. This applies to disability insurance contracts in particular.

Provision for Co-insurance

VIVAT Schade participates in co-insurance contracts, mainly relating to the fire sector. The technical provision is calculated based on all risks accepted at the reporting date and claims incurred during the financial year, both reported and unreported.

The expected balances of risks covered and losses incurred arising from co-insurance contracts are determined on an underwriting-year basis.

Liability Adequacy Test of Non-life Insurance Contracts

Test Methodology

This test is performed on all non-life provisions. The test value of the insurance liabilities is based on a best estimate and a risk margin. The best estimate is determined separately for each portfolio with homogeneous risk. The best estimate serves as a realistic estimate of future premium income (both gross and reinsurance), claim payments (both gross and reinsurance), expenses and commissions. The cash flows are discounted using the swap curve including ultimate forward rate as set for Solvency II reporting purposes for the financial year. The risk margin is based on the cost of capital method, in which process the cost of capital equals the capital requirements of a reference company. Cost of capital is determined annually. For 2019 it is set at 4% (2018: 4%).

The test is performed on an aggregate level; deficits in portfolios are compensated with a surplus in another. The IFRS LAT is calculated on a net basis; the effects of reinsurance contracts on the projected cash flows are comprised in the outcome. Any remaining deficit is charged directly to the statement of profit or loss.

Test Level and Frequency

An IFRS liability adequacy test is carried out quarterly to establish the adequacy of the liabilities arising from the total portfolio of non-life insurance policies.

Provision for Employee Benefits

Short-term Employee Benefits

Short-term employee benefits primarily include salaries and short paid leave. These are accounted for in the statement of profit or loss over the period in which the related services are rendered. In the event that employees have not made use of their entitlements at the end of the period, a liability is formed for the nominal amount.

Pension Benefits

General

All currently employed personnel is hired by VIVAT NV. VIVAT's main pension scheme is a defined contribution scheme administrated by Stichting Pensioenfonds SNS REAAL. New staff is included in this scheme. In addition, a number of defined benefit plans were acquired from insurance companies in the past. The members of those schemes are referred to as members with deferred pension rights or retirees.

Defined Contribution Schemes

According to this pension scheme, defined contributions are paid to separate entities, primarily to Stichting Pensioenfonds SNS REAAL, an independent pension fund. Besides the defined contributions, VIVAT Schade has no obligation to make additional payments to the scheme to make up for deficits resulting from actuarial or investment risk.

Defined Benefit Schemes

A number of defined benefit schemes for (former) employees still exists. The net liability related to these schemes is represented by the difference between the present value of the future liabilities to pay the participants' pensions (gross pension entitlements) and the value of the qualifying assets of these schemes. Qualifying assets are investments relating to pension funds or insurance contracts with insurance companies other than VIVAT Schade.

A net asset due to a surplus is recognised only if VIVAT Schade has the ability to use the surplus to generate future economic benefits (asset ceiling). The excess amount above the asset ceiling will be deducted from the surplus through other comprehensive income.

Gross Pension Entitlements from Defined Benefit Schemes

These are calculated annually by an independent actuary according to the projected unit credit method and discounted using rates based on returns from investment-grade corporate bonds (AA rating) with a maturity corresponding to the time of benefit payments to the members. In principle, this method distributes the pension costs evenly over the period in which an employee renders services to VIVAT Schade.

Self-administered Defined Pension Schemes

Entitlements from these schemes are insured at SRLEV within VIVAT. The investments under these schemes are held by SRLEV.

Recognition of Costs in the Statement of Profit or Loss

Costs of Defined Contribution Schemes

The regular contributions in the defined contribution schemes qualify as net periodic costs in the year in which they are due and are recognised within the employee benefits expense. Employee contributions are deducted from this expense.

Income and Expense Associated with Defined Benefit Schemes
The following items are recognised in the statement of profit or loss for defined benefit schemes:
- periodic pension costs relating to the members of the scheme who are still employed by VIVAT Schade;
- costs of improvement (or costs relating to deducted value of entitlements returned) of these pension schemes, insofar as they relate to past employment;
- gains and losses on settlement of pension entitlements; and
- net interest on the net defined benefit liability (or asset).

Net Interest on Defined Benefit Schemes
Net interest is calculated based on the actuarial discount rate used to determine the present value of the gross pension entitlements. This net liability (or asset) is determined at the start of the annual reporting period, taking into account possible changes resulting from contributions from VIVAT Schade or employees and benefits paid out during the year.

Interest costs consist of actuarial interest costs corresponding to the gross defined benefit liability, the fixed return on qualifying investments (calculated as the present value of the gross defined benefit entitlements covered by the insurance contracts, using the discount rate) and interest on the excess above the asset ceiling, which is determined if a defined benefit asset exists.

Recognition in Other Comprehensive Income
The following revaluations of the net pension liability (or asset) are recognised in other comprehensive income:
- actuarial gains and losses;
- gains on qualifying investments of defined benefit schemes actually realised during the year, net of the fixed gains and losses based on the actuarial discount rate that is included in the net interest from defined benefit schemes; and
- the effect of asset ceiling, if a defined benefit asset exists.

Revaluations are not reclassified to the statement of profit or loss in the next reporting period, but they can be reclassified to another component of equity, e.g. settlement of pension entitlements.

Other Long Term Employee Benefits
These refer to jubilee benefits and to discounts granted for bank and insurance products to (former) employees after the date of their retirement. The amount of the obligation is based on the present value of the discounts offered after the retirement date, taking into account actuarial assumptions about mortality and interest. Furthermore, an obligation for reimbursement of medical expenses is recognised. A liability for the expected expenses of these reimbursements during the period of employment is recognised according to the methods used to determine the defined pension schemes obligations. To qualify for these benefits, an employee's contract is required to run until his or her retirement age and it is to span a specified minimum period.

Retention Bonus
Retention bonusses are employee benefits. The vesting and payment of retention bonusses are subject to certain conditions and law and regulations, which contains deferred payment for Identified Staff. The employees receive a retention bonus only if they remain with the entity for the specified period. The expected cost of bonus payments is recognised in the statement of profit or loss during this specified period as

employees render service. Retention bonusses are recognised under staff costs as short-term employee benefits with the exception of the deferred part, which is recognised as other long-term employee benefits.

Termination Benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment. Termination benefits are recognised as staff costs in the statement of profit or loss.

Financial Liabilities

Derivatives

See the previous section entitled 'Derivatives'.

Amounts Due to Banks

Amounts due to banks comprise unsubordinated debts to credit institutions. Upon initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. These liabilities are subsequently measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised in the statement of profit or loss.

Other Liabilities

Other liabilities include creditors, amounts payable to reinsurers, other taxes and accrued liabilities as well as interest accrued on financial instruments that are measured at amortised cost.

6.1.6. Accounting Policies for the Statement of Profit or Loss

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate.

Income

Income represents the fair value of the services, after elimination of intra-group transactions within VIVAT Schade. Income is recognised as described in the following sections.

Premium Income

Premium income from insurance contracts, exclusive of taxes and other charges, comprises non-life premiums.

Premium income from non-life insurance contracts is recognised as income (earned premium) until the contracts' maturity in proportion to the insurance period, taking into account movements in the provision for unearned premium. In general, this concerns the insurance contracts with periods of up to twelve months.

In case of long term disability contracts with fixed premiums and increasing risk during the contract period, the premium is recognised in profit or loss in line with the predefined risk.

Reinsurance Premiums

This item represents premiums on ceded reinsurance contracts. They are charged to the statement of profit or loss in proportion to the contract period.

Fee and Commission Income

Fee and commission income comprises primarily intermediary commissions, which are in scope of IFRS 15.

The intermediary commission represents the reward received from external parties for insurance contracts signed by VIVAT Schade's intermediaries. The commission can be split into acquisition commission, which is recognised at a point in time, and signing fee, which is recognised over time.

Fee and Commission Expense

Commission expenses and management fees are accounted for as fee and commission expense to the extent that they are related to the services received in the reporting period.

Commission costs related to transactions in general account financial instruments is included in the amortised cost of this instrument, unless the instrument is measured at fair value through profit or loss, in which case the commission is included in the result.

Investment Income

Investment income consists of interest, dividends, rental income and revaluations.

Interest

The item interest comprises interest income from investments. Interest on financial assets is accounted for using the effective interest method based on the actual purchase price. The effective interest method is based on estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and direct costs and income, such as transaction costs charged, brokerage fees and discounts or premiums.

Commitment fees, together with related direct costs, are deferred and recognised as adjustments of the effective interest on a loan if it is likely that VIVAT Schade will conclude a particular loan agreement. If the commitment expires without VIVAT Schade having provided the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment period.

Interest income on monetary financial assets that have been subject to impairment and have been written down to the estimated recoverable amount is calculated over the amortised cost of the financial asset net of any reduction for impairment or uncollectibility.

Dividends

Dividends income is recognised in the statement of profit or loss as soon as the entity’s right to payment is established. In the case of listed securities, this is the date on which these securities are quoted ex-dividends.

Revaluations
This item serves to recognise realised and unrealised increases and decreases in the fair value of financial assets qualifying as at fair value through profit or loss. Revaluations concern the difference between the fair value at the reporting date or net proceeds from the sale during the reporting period on the one hand, and the fair value at the beginning of the reporting period or the purchase price during the reporting period on the other.

Realised gains and losses, i.e. the difference between the selling price and amortised cost, of financial assets coming under the other categories are recognised in this item as well.

Result on Derivatives
Gains and losses on derivative and other financial instruments are recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are directly recognised in the statement of profit or loss within gains and losses on financial instruments.

Expenses

Expenses are recognised in the statement of profit or loss on the basis of a direct relationship between costs incurred and the corresponding economic benefits. If future economic benefits are expected to occur in different reporting periods, expenses are recognised in the statement of profit or loss based on a systematic allocation method. Expenses are directly recognised in the statement of profit or loss if they do not generate any future economic benefits.

Technical Claims and Benefits
This item comprises benefits and claims paid, surrender, claim handling costs and the changes in the general account insurance liabilities which include the difference between actual and expected results on the general account insurance portfolio. The changes in insurance liabilities resulting from a LAT-deficit, if applicable, are also presented within this item.

Acquisition Costs for Insurance Activities
Acquisition costs comprise the direct and indirect costs associated with acquiring an insurance contract, including brokerage fees, the costs of medical check-ups and service charges for recording new policies in the portfolio.

Staff Costs
This item concerns expenses related to staff, including salaries, social security contributions and pension costs. The salaries, social security contributions and costs of the SNS REAAL defined contribution pension scheme were charge by VIVAT to VIVAT Schade.

Depreciation and Amortisation of Non-current Assets
This item comprises all amortisation of intangible assets. For details on the amortisation technique, see Section 6.1.5 entitled ‘Accounting policies for the statement of financial position’ (see the applicable items).

Other Operating Expenses
This includes office expenses, accommodation expenses and other operating expenses.

Impairment Losses

This item includes impairments of assets whose carrying amounts exceed their recoverable amounts. Intangible assets, associates, financial assets, receivables and other assets may be subject to impairment. As soon as an impairment loss is identified, it is recognised in the statement of profit or loss. The specific policies for impairment are explained in greater detail in Section entitled ‘Accounting policies for the statement of financial position’ (see the applicable items).

Other Interest Expenses

This item primarily comprises interest expenses related to reinsurance depots as well as interest on subordinated bonds and private loans issued by VIVAT Schade. Interest expenses are recognised in the statement of profit or loss based on the effective interest method.

Other Expenses

Other expenses comprise all expenses that cannot be accounted for within the items in the statement of profit or loss described above. These expenses have no direct relation with the primary and secondary business operations, occur occasionally, and are incurred in a single reporting period or arise in a single reporting period; they are amortised over multiple reporting periods, where applicable.

6.1.7. Contingent Liabilities and Commitments

Contingent liabilities are liabilities not recognised in the statement of financial position because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of VIVAT Schade. It is not possible to make a reliable estimate of such liabilities.

The maximum potential credit risk arising from pledges and guarantees is stated in the notes. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

6.1.8. Cash Flow Statement

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before tax are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price. In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

6.2. Acquisitions and Disposals

There were no acquisitions or disposals in the financial year 2019. In 2018, VIVAT Schade merged with Fnidsen Beheer BV. The merger occurred on the 28 October 2018 with retrospective effect, from a legal perspective, as per 1 January 2018. As a result, the financial information of Fnidsen Beheer BV is accounted for in the financial statements of VIVAT Schade as per 1 January 2018. As a consequence it acquired all assets and liabilities of Fnidsen Beheer BV, including all shares of Bemiddelingskantoor Nederland BV.

6.3. Notes to the Consolidated Financial Statements

1. Intangible Assets

Breakdown of Intangible Assets

In € thousands	2019	2018
Software	–	385
Total	**–**	**385**

Statement of Changes in Intangible Assets

In € thousands	2019	2018
	Software	Software
Accumulated acquisition costs	10,325	10,325[1]
Accumulated amortisation and impairments	–10,325	–9,940
Balance as at 31 December	**–**	**385**
Balance as at 1 January	**385**	**1,044**
Amortisation capitalised costs	–318	–459
Amortisation purchases	–67	–200
Balance as at 31 December	**–**	**385**

1 Accumulated amounts as at YE 2018 adjusted.

The software in use is fully amortised as at year-end 2019. The amortisation for 2019 was € 385 thousand, the bookvalue at year-end 2019 is nil.

2. Investments

Breakdown of Investments

In € thousands	2019	2018
Available for sale	1,551,508	1,555,624
Loans and receivables	43,269	1,110
Balance as at 31 December	**1,594,777**	**1,556,734**

Breakdown of Available for Sale: Listed and Unlisted

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2019	2018	2019	2018	2019	2018
Listed	–	–	1,472,978	1,101,289	**1,472,978**	**1,101,289**
Unlisted	66,785	454,335	11,745	–	**78,530**	**454,335**
Total	**66,785**	**454,335**	**1,484,723**	**1,101,289**	**1,551,508**	**1,555,624**

The decrease of shares and similar investments in 2019 was mainly caused by the divestments in money market funds. Fixed-income investments in the AFS portfolio increased by € 383,434 thousand mainly due to a larger allocation to fixed-income investments and revaluations.

Statement of Changes in Available for Sale

In € thousands	Shares and similar investments 2019	Shares and similar investments 2018	Fixed-income investments 2019	Fixed-income investments 2018	Total 2019	Total 2018
Balance as at 1 January	**454,335**	**213,827**	**1,101,288**	**1,301,840**	**1,555,623**	**1,515,667**
Purchases and advances	267,752	532,031	1,391,848	706,199	**1,659,600**	**1,238,230**
Disposals and redemptions	-647,642	-284,181	-995,951	-863,528	**-1,643,593**	**-1,147,709**
Revaluations	-5,105	-8,456	10,768	-18,457	**5,663**	**-26,913**
Impairments	-8	-44	-	-	**-8**	**-44**
Amortisation	-	-	-18,834	-16,945	**-18,834**	**-16,945**
Received Coupons	-	-	-31,952	-37,529	**-31,952**	**-37,529**
Accrued Interest	-	-	27,556	29,708	**27,556**	**29,708**
Dividend Received/Negative Distribution	-2,547	1,158	-	-	**-2,547**	**1,158**
Balance as at 31 December	**66,785**	**454,335**	**1,484,723**	**1,101,288**	**1,551,508**	**1,555,623**

In 2019 the inflow in fixed-income investments is mainly in short term sovereign Western European bonds (Dutch, French and German).

Breakdown of Available for Sale: Measurement

In € thousands	Shares and similar investments 2019	Shares and similar investments 2018	Fixed-income investments 2019	Fixed-income investments 2018	Total 2019	Total 2018
(Amortised) cost	56,707	436,816	1,424,228	1,047,846	**1,480,935**	**1,484,662**
Revaluation	10,078	17,519	46,794	39,050	**56,872**	**56,569**
Accrued interest	-	-	13,701	14,393	**13,701**	**14,393**
Total	**66,785**	**454,335**	**1,484,723**	**1,101,289**	**1,551,508**	**1,555,624**

VIVAT Schade has lent some of its fixed-income investments for the purpose of additional income. The carrying amount of the investments lent in a securities lending program as at 31 December 2019 amounts to € 150,722 thousand (2018: € 69,434 thousand). The lending periods are open-ended and can be terminated on request. The fair value of investments received from the counterparty as collateral at 31 December 2019 was € 158,525 thousand (2018: € 71,899 thousand). Collateral is only accepted in the form of equity and fixed income securities, with restrictions on the quality. Although collateral is at the disposal of VIVAT Schade, it is VIVAT Schade's policy not to trade with collateral received given the open-ended character of the initial securities lending transaction.

Some investments have been posted as collateral for amounts due to derivatives. The carrying amount (market value) of investments posted as collateral at 31 December 2019 was € 21,467 thousand (2018: € 21,946 thousand). The collateral received for derivatives are reported in Note 28 Financial Instruments.

Breakdown of Loans and Receivables

In € thousands	2019	2018
Private loans	43,269	1,110
Total	**43,269**	**1,110**

The increase of private loans in 2019 was primarily caused by € 42 million new lendings.

Statement of Changes in Loans and Receivables

	Loans and receivables	
In € thousands	2019	2018
Balance as at 1 January	**1,110**	**51,559**
Purchases and advances	42,351	-
Disposals and redemptions	-188	-50,486
Amortisation	-2	6
Realised Revaluation	-2	31
Balance as at 31 December	**43,269**	**1,110**

Investment Portfolio
Breakdown of Investments in Interest-bearing Investment Portfolio

In € thousands	2019	2018
Investments		
- Available for sale	1,484,723	1,101,289
- Loans and receivables	43,269	1,110
Interest-bearing investment portfolio	**1,527,992**	**1,102,399**

The following table shows the breakdown of the interest-bearing investment portfolio by sector.

Breakdown of Interest-bearing Investment Portfolio (sector)

In € thousands	2019		2018	
Sovereign	1,243,809	81%	864,126	79%
Corporate bonds - financial sector	149,676	10%	162,815	15%
Corporate bonds - non-financial sector	84,064	6%	70,926	6%
Mortgage backed securities	7,175	0%	3,423	0%
Loans	42,290	3%	232	0%
Other	979	0%	877	0%
Total	**1,527,993**	**100%**	**1,102,399**	**100%**

The following overview provides a breakdown of the interest-bearing investments by rating category.

Breakdown of Interest-bearing Investment Profile (rating)

In € thousands	2019		2018	
AAA	1,029,413	67%	702,517	64%
AA	188,615	12%	115,740	11%
A	112,279	7%	113,596	10%
BBB	169,255	11%	147,220	13%
< BBB	11,956	1%	22,264	2%
Not rated	16,475	1%	1,062	0%
Total	**1,527,993**	**100%**	**1,102,399**	**100%**

In 2019, VIVAT Schade continued its re-risking strategy reflected in the increase of the not-rated interest-bearing investments in the interest- bearing investment portfolio (2019: 1%, 2018: 0%). The interest-bearing investment portfolio held 86% of investments had an A rating or higher (year-end 2018: 85%). This results from higher valuations of investments with an A rating or higher due to decreased interest rates.

The interest bearing investment portfolio by geographic area is included in the table below.

Breakdown of Interest-bearing Investment Profile (geographic)

In € thousands	2019		2018	
Netherlands	594,110	39%	400,908	36%
Germany	350,907	23%	273,582	25%
France	92,424	6%	66,739	6%
Luxembourg	81,682	5%	12,157	1%
Austria	56,919	4%	56,115	5%
Spain	45,917	3%	55,045	5%
Italy	40,068	3%	35,701	3%
Belgium	37,649	2%	37,662	3%
United Kingdom	27,792	2%	28,311	3%
United States of America	20,750	1%	9,855	1%
Switzerland	7,478	0%	7,609	1%
Ireland	3,588	0%	7,066	1%
Other European countries	153,446	10%	103,713	9%
Oceania	13,751	1%	6,418	1%
America	1,512	0%	1,518	0%
Total	**1,527,993**	100%	**1,102,399**	100%

The interest-bearing investment portfolio of VIVAT Schade have predominantly European debtors. The German Government, Dutch Government and European Investment Bank represent, as single debtors, an interest of more than 5% each in the interest-bearing investment portfolio.

The category "Other European countries" also consists of European and other international institutions that cannot be allocated to a single country (2019: € 107,501 thousand / 2018: € 76,315 thousand).

3. Derivatives

Breakdown of Derivatives

In € thousands	Positive value 2019	Positive value 2018	Negative value 2019	Negative value 2018	Balance 2019	Balance 2018
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	50,964	23,307	-	5,945	**50,964**	**17,362**
Total	**50,964**	**23,307**	**-**	**5,945**	**50,964**	**17,362**

The derivatives position increased with € 33,602 thousand in 2019. This is due to changes in market value caused by long interest rate movements.

Statement of Changes in Derivatives

In € thousands	2019	2018
Balance as at 1 January	**17,362**	**10,708**
Disposals	932	-
Realised gains and losses	1,483	-
Revaluations	30,210	6,650
Accrued Interest	977	4
Balance as at 31 December	**50,964**	**17,362**

The disposals consist of the settlement of Interest Rate Swaps with a negative market value. For more information about derivatives see Note 19 Results on derivatives and Note 29 Hedging.

4. Other Assets

Breakdown of other assets

In € thousands	2019	2018
Receivables from policyholders	1,835	1,375
Receivables from intermediaries	19,505	20,547
Receivables from reinsurers	13,299	12,896
Receivables from direct insurance	**34,639**	**34,818**
Receivables from group companies	2,385	4,348
Reimbursement rights	23,599	19,762
Accrued interest	39	-
Other accrued assets	1,666	1,413
Accrued assets	**1,705**	**1,413**
Total	**62,328**	**60,341**

In 2019 an additional impairment for doubtful debtors has been recognised and is reported as part of Receivables from direct insurance.

The receivables other than the reimbursement rights are expected to be recovered within twelve months after reporting date.

5. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

In € thousands	2019	2018
Short-term bank balances	46,328	49,909
Total	**46,328**	**49,909**

Short-term bank balances are at the company's free disposal.

VIVAT Schade and its subsidiaries have a joint credit facility of € 2 million in total with ABN AMRO.

6. Equity

Breakdown of Equity

In € thousands	2019	2018
Equity attributable to the shareholder	398,831	336,575
Total	**398,831**	**336,575**

The authorised share capital amounts to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares with a total amount of € 11,350,000 are issued of which an amount of € 10,898,420.62 is paid up.

7. Subordinated Debt

Breakdown of subordinated debt

In € thousands	2019	2018
Private loans	150,000	150,000
Total	**150,000**	**150,000**

Subordinated private loans

In € thousands	Interest	Maturity	2019	2018
VIVAT NV	7.750%	December 2015 - December 2025	80,000	80,000
VIVAT NV	5.545%	December 2016 - December 2026	70,000	70,000
Total			**150,000**	**150,000**

On 29 December 2015, VIVAT NV granted a loan to VIVAT Schade in the amount of € 80 million. 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 fixed rate of 7.75% annually.

On 29 December 2016, VIVAT NV granted a loan to VIVAT Schade in the amount of € 70 million. 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.

In 2019 and 2018 there have been no changes with regard to these debts.

8. Insurance Liabilities and Reinsurance Share

As per 31 December 2019 the total amount of gross provisions is € 1,082,734 thousand (2018: € 1,134,709 thousand). Net of the reinsurance share of € 65,088 thousand (2018: € 83,233 thousand), the net amount at year-end 2019 is € 1,017,646 thousand (2018: € 1,051,476 thousand).

Breakdown of Insurance Liabilities and its Reinsurers Share per Type of Provision

	Gross		Reinsurance	
In € thousands	2019	2018	2019	2018
Claims payable	814,292	834,371	53,403	64,614
Claims incurred but not reported	201,348	222,385	10,777	17,624
Unearned premiums	58,179	54,801	908	995
Current risks	8,915	23,152	-	-
Total	**1,082,734**	**1,134,709**	**65,088**	**83,233**

The provision for current risks decreased by € 14,237 thousand mainly because of a parameter update, an improved performance of the portfolio and one off effects resulting in the release of the unexpired risk reserves (URR). The URR is nill per year-end 2019.

Breakdown Net Provision

	2019			2018		
In € thousands	Net provision	% Net provision	% Gross earned premium	Net provision	% Net provision	% Gross earned premium
Accident and health	383,798	38%	14%	387,639	37%	15%
Motor vehicles	357,301	35%	29%	365,682	35%	31%
General liability	120,594	12%	8%	126,910	12%	8%
Fire	105,417	10%	34%	119,238	11%	32%
Transport	41,630	4%	6%	42,197	4%	6%
Other	8,906	1%	9%	9,810	1%	8%
Total	**1,017,646**	**100%**	**100%**	**1,051,476**	**100%**	**100%**

Statement of Changes in Provision for Claims Payable

	Gross		Reinsurance	
In € thousands	2019	2018	2019	2018
Balance as at 1 January	**834,371**	**816,462**	**64,614**	**64,491**
Reported claims, current period	391,728	408,978	17,749	24,760
Reported claims, prior periods	46,602	50,293	1,979	1,109
Claims paid, current period	-216,528	-229,110	-15,118	-12,933
Claims paid, prior periods	-255,361	-229,771	-16,552	-14,979
Interest added	13,480	17,519	731	2,166
Balance as at 31 December	**814,292**	**834,371**	**53,403**	**64,614**

The provision for claims payable include claims handling expenses of € 31,851 thousand at year end (2018: € 34,607 thousand). The decrease of claims payable in 2019 is for the largest part attributable to Motor and Fire, as a result of the settlement of claims and decreases on individual files.

Statement of Changes in Provision for Claims Incurred but not Reported

In € thousands	Gross		Reinsurance	
	2019	2018	2019	2018
Balance as at 1 January	**222,385**	**254,455**	**17,624**	**24,572**
Additions during the year	57,023	78,742	-4,039	1,668
Added to the results	-78,060	-110,812	-2,808	-8,616
Balance as at 31 December	**201,348**	**222,385**	**10,777**	**17,624**

The provision for claims incurred but not reported decreased with € 21,037 thousand compared to 2018 mainly as result of:

- Decrease of € 9,914 thousand because of an update of the provisions based on the surrender value in allignment with the cedant (also impact on reinsurance);
- Favourable claim development prior years and an update of the expected loss ratios.

Development of Ultimate Loss Total

In € thousands	Accident Year							
Calendar year	≤ 2013	2014	2015	2016	2017	2018	2019	Total
2013	2,756,829	-	-	-	-	-	-	
2014	2,794,247	575,122	-	-	-	-	-	
2015	2,817,014	529,713	453,158	-	-	-	-	
2016	2,815,478	529,677	464,743	459,005	-	-	-	
2017	2,782,039	526,570	449,909	447,671	440,719	-	-	
2018	2,787,974	527,214	449,862	433,554	413,950	478,633	-	
2019	2,786,870	532,321	453,454	438,637	403,435	463,734	447,917	
Total development	**-30,041**	**42,801**	**-296**	**20,368**	**37,284**	**14,899**	**-**	**85,015**
Run-off gain (loss) 2019	**1,104**	**-5,107**	**-3,592**	**-5,083**	**10,515**	**14,899**	**-**	**12,736**

The development of the ultimate loss concerns gross figures, before reinsurance. It includes the claims payment, the changes in claims reserves and the changes in the provision IBNR.

For a large part the run off results over 2019 are due to redistribution of the IBNR reserve for disability claims over claim years, leading to higher reserves for claim years 2014-2016 and a decrease on claim year 2018. For claim year 2017 ultimate losses are lower due to updated expectations on claim development of bodily injury claims.

Liability Adequacy Test results
Reconciliation of the IFRS insurance liabilities and the LAT Results

In € thousands	2019	2018
Insurance liabilities before LAT	1,017,647	1,051,476
IFRS LAT reserve	868,309	917,041

There is no deficit in 2019 and 2018. The movement in the LAT reserve is due to favorable developments (e.g. mild winter conditions and the absence of storm and hail) along with performance measures taken by the business and a parameter update. The parameter update has an impact on the IFRS LAT reserve of € 59 million.

9. Provision for Employee Benefits

Breakdown of Provision for Employee Benefits

In € thousands	2019	2018
Pension commitments	28,286	24,552
Total	**28,286**	**24,552**

Pension Commitments

Defined Contribution Scheme

The pension scheme to which VIVAT Schade employees are entitled is a defined contribution scheme. Under this scheme, VIVAT NV pays a fixed amount to Stichting Pensioenfonds SNS REAAL.

Defined Benefit Schemes

VIVAT Schade has several legacy pension schemes with pension entitlements of current and former employees of VIVAT Schade and the companies it acquired over the years. Most of these legacy pension schemes have been insured by SRLEV and few with other insurance companies.

The fair value of the plan assets of these plans is determined based on different methodologies. Investments relating to pension schemes that are included in a separate investment account are offset against the present value of defined benefit obligations. Non-separated investments are recognised within investments in the statement of financial position.

VIVAT Schade's total contribution to these defined benefit schemes is expected to be approximately € 0.2 million in 2020 (2019: € 0.4 million). Obligations for additional indexation rights are included in the provision and will be released after payment to the insurer.

Regarding the several defined benefit schemes, as explained below, there are no changes with respect to terms and conditions.

Pension Scheme Former AXA and Winterthur (Defined Benefit Scheme)

The accrual of new pension rights of former employees of Winterthur, UAP, Equity & Law (E&L) and Guardian have been transferred to the Stichting Pensioenfonds SNS REAAL as from 1 January 2009.

The schemes of Winterthur, UAP and Equity & Law (E&L) are insured with SRLEV NV, without the investments being separated; instead they are recognised within investments in the statement of financial position and included in the balance sheet item Investments.

The Guardian pension scheme is insured externally. No direct investment allocation is held in relation to the Guardian pension scheme. Therefore, the fair value of the pension plan assets can not be determined based on a certain investment allocation. The fair value of the plan assets is based on the accrued pension benefits and actuarial rates.

The indexation of the pension entitlements of inactive participants is equal to the indexation applied by the Stichting Pensioenfonds SNS REAAL. The pension entitlements of active participants are unconditionally indexed based on the salary index. Active participants are here defined as employees of VIVAT Schade that actively accrue pension benefits in the Stichting Pensioenfonds SNS REAAL.

In the event that the coverage ratio of the Winterthur scheme falls below the agreed limit of 105%, an additional contribution will be made by the employer.

After offsetting the fair value of the investments, € 9.1 million has been included in the provision for pensions for the former AXA and Winterthur pension schemes (2018: € 8.5 million). In 2020, VIVAT Schade's contribution to these defined benefit schemes is expected to amount to € 0.1 million (2019: € 0.2 million).

Pension Scheme Zwitserleven (Defined Benefit Scheme)

As of 1 January 2010, the accrual of new pension entitlements of the employees of former Zwitserleven NV was transferred to Stichting Pensioenfonds SNS REAAL. The rights of inactive participants built up in the past and active former participants remain part of the former pension scheme of Zwitserleven.

Until 2025 the conditional indexation of the pension rights of inactive participants is determined using the return on investment and potential technical results. If the return is insufficient, the indexation may be lower than the indexation of Stichting Pensioenfonds SNS REAAL. From 2025 onwards, the indexation will in principle be equal to the indexation of Stichting Pensioenfonds SNS REAAL. The pension rights of active former participants are unconditionally indexed based on the salary index.

The pension scheme of Zwitserleven is insured with SRLEV NV. For this pension scheme, the present value of the pension obligations of € 14.9 million (2018: € 12.3 million) has been included in the provision for employee benefits. There is no separate investment account. VIVAT Schade's contribution to the defined benefit scheme of Zwitserleven is expected to amount to € 0.1 million in 2020 (2019: € 0.2 million).

Other Pension Schemes

The accrual of new pension rights of former employees of Zürich, NHL, Helvetia and DBV has been transferred to Stichting Pensioenfonds SNS REAAL. The pension rights of former employees of Zürich and DBV built up in the past are insured internally by SRLEV, without the investments being separated; instead they are recognised within investments in the statement of financial position but included in the balance sheet item Investments.

The pension rights of former employees of NHL and Helvetia built up in the past are insured externally. No direct investment allocation is held in relation to these pension scheme. Therefore, the fair value of the pension plan assets can not be determined based on a certain investment allocation. The fair value of the plan assets of NHL is based on the accrued pension benefits and actuarial rates and the value of the indexation depot. As the value of the assets in the investment account is lower than the discounted value of the funded insured benefits under the insurance contract, the fair value of plan assets is set to the discounted value of the funded insured benefits, increased with the indexation depot and the current account. Regarding the NHL pension scheme the asset ceiling is applied. The fair value of the plan assets of Helvetia is based on the accrued pension benefits and actuarial rates. In all of these pension schemes no more pension rights, other than indexation, are accrued.

After offsetting the fair value of the investments, € 4.3 million (2018: € 3.8 million) has been included in the provision for pensions for these other pension schemes. In 2020, VIVAT Schade's contribution to the other defined benefit schemes is expected to amount to € 0.04 million (2019: € 0.10 million).

Overview Pension Commitments

Breakdown of Pension Commitments

In € thousands	2019	2018
Present value of defined benefit obligations	31,651	27,738
Less: Fair value of plan assets	-3,374	-3,347
Effect of asset ceiling	9	161
Present value of the net liabilities	**28,286**	**24,552**

Statement of Changes in Present Value of Defined Benefit Obligations

In € thousands	2019	2018
Present value as at 1 January	**27,738**	**29,507**
Increase and interest accrual through profit or loss	493	510
Actuarial gains or losses due to changes in financial assumptions through Other Comprehensive Income	3,765	-198
Actuarial gains or losses due to changes in demographic assumptions through Other Comprehensive Income	-274	-313
Actuarial gains or losses due to experience adjustments through Other Comprehensive Income	-103	-990
Benefits paid	-809	-777
Other movements through Other Comprehensive Income	841	-
Present value as at 31 December	**31,651**	**27,738**

Other movements through Other Comprehensive Income relates to understated defined benefit obligation by € 0.8 million at the end of 2018.

Statement of Changes in Fair Value of the Plan Assets

In € thousands	2019	2018
Fair value as at 1 January	**3,347**	**3,348**
Investment income through profit and loss	59	58
Actuarial gains or losses due to changes in financial assumptions through Other Comprehensive Income	360	-19
Actuarial gains or losses due to changes in demographic assumptions through Other Comprehensive Income	-27	-24
Actuarial gains or losses due to experience adjustments through Other Comprehensive Income	-87	88
Guarantee cost adjustment through Other Comprehensive Income	-159	-
Investment income	**146**	**103**
Premiums	690	674
Benefits paid	-809	-778
Fair value as at 31 December	**3,374**	**3,347**

Based on general practice in the market, VIVAT Schade decided to include an additional provision for guarantees expenses in the pension obligation of € 0.2 million as per 31 December 2019. The provision was charged to Other Comprehensive Income.

The expected return on investments through profit or loss has been netted with the actuarial rate of interest (in accordance with IAS 19 Revised). The difference between the actual interest result and the actuarial rate of interest is recognised in Other Comprehensive Income.

As per 2019 the guarantee costs for the NHL pension plan are included in the fair value of the plan assets and are shown as an adjustment.

Breakdown of Fair Value of the Plan Assets

In € thousands	2019	2018
Cash and cash equivalents	552	596
Insurance contract	2,822	2,751
Balance as at 31 December	**3,374**	**3,347**

The plan assets Insurance contracts consist of the paid-up value based on the actuarial principles.

Reconciliation of the effect of the Asset Ceiling

In € thousands	2019	2018
Balance as at 1 January	**161**	**80**
Interest on the effect of asset ceiling	3	1
Remeasurements on the effect of asset ceiling through Other Comprehensive Income	-155	80
Balance as at 31 December	**9**	**161**

Statement of Changes in Other Comprehensive Income

In € thousands	2019	2018
Balance as at 1 January	**1,085**	**-648**
Actuarial gains or losses at the expense of Other Comprehensive Income pension commitments	-961	2,264
Investment income for the benefit or at the expense of Other Comprehensive Income	-242	-33
Deferred taxes	317	-498
Balance as at 31 December	**199**	**1,085**

The table below shows the actuarial gains and losses on pension commitments, that arise from experience adjustments, as a percentage of the pension commitments at year-end.

Experience Adjustment Arising on the Pension Commitments

In percentages	2019	2018
Experience adjustments as a % of defined benefit obligation	0%	-4%
Experience adjustments as a % of investments	-3%	4%

The Main Actuarial Parameters at Year-end

In percentages	2019	2018
Discount rate	0.85%	1.80%
Expected salary increase	1.86%	2.26%
Price inflation	1.79%	2.23%
Increase accrued pension rights - Active	1.86%	2.26%
Increase accrued pension rights - Inactive	50% of price inflation	50% of price inflation

Sensitivity Present Value of Pension Obligations 2019

	31 December 2019	
	Change in € millions	Change in %
Discount rate 0.35% (-0.5%)	3	10%
Discount rate 1.35% (+0.5%)	-3	-9%

Sensitivity Present Value of Pension Obligations 2018

	31 December 2018	
	Change in € millions	Change in %
Discount rate 1.30% (-0.5%)	3	10%
Discount rate 2.30% (+0.5%)	-2	-8%

10. Deferred Tax

Origin of Deferred Tax 2019

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	2,260	-478	2,719	4,501
Derivatives	3,199	7,445	-	10,644
Insurance contracts	-2,118	-168	-	-2,286
Provision for employee benefits	-265	-537	301	-501
Total	**3,076**	**6,262**	**3,020**	**12,358**

Origin of Deferred Tax 2018

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	6,688	2,781	-7,209	2,260
Derivatives	2,322	877	-	3,199
Insurance contracts	-2,904	786	-	-2,118
Provision for employee benefits	-2,262	1,499	498	-265
Total	**3,844**	**5,943**	**-6,711**	**3,076**

The total amount of change in deferred tax through profit or loss is € 6,262 thousand (2018: € 5,943 thousand). This amount is due to temporary differences (2019: € 6,951 thousand; 2018: € 5,958 thousand) and to the impact of change in corporate income tax rate (2019 € -689 thousand; 2018: € -15 thousand). See also note 26.

In 2018, a law was adopted that lowers the Dutch corporate income tax rate to 22.55% in 2020 and to 20.50% in 2021. The deferred tax position at 31 December 2018 is calculated reflecting these reduced rates for temporary differences that are expected to reverse in financial years in which these rates apply. The total impact of the change in tax rate were € 1,268 thousand (gain) of which € 15 thousand via the profit or loss account as tax gain and € 1,253 thousand via equity.

However, on 17 December 2019 The Senate approved the Tax Plan 2020 including the changes to the corporate income tax rate of 25% (2020) and 21.7% (2021). This means that these tax rate changes are substantively enacted and that the 31 December 2019 deferred tax calculation is based on these updated rates. The total impact of the 2019 change in tax rate is € 738 thousand (gain) of which € 689 thousand via the profit or loss account as tax benefit and € 49 thousand via equity.

11. Amounts due to Banks

Breakdown of Amounts due to Banks

In € thousands	2019	2018
Due on demand	52,226	17,049
Total	**52,226**	**17,049**

The amount of € 52 million (2018: € 17 million) due on demand concerns cash collateral, which is related to the market value of derivatives. The market value of the derivatives portfolio increased due to lower long-term interest rates.

12. Other Liabilities

Breakdown of Other Liabilities

In € thousands	2019	2018
Debts to group companies	29,517	37,883
Debts in relation to direct insurance	12,130	14,071
Debt to reinsurers	20,008	23,703
Other taxes	6,087	5,832
Other liabilities	16,075	17,976
Benefits to be Paid	-11	-3
Accrued interest	75	59
Total	**83,881**	**99,521**

The other liabilities are expected to be settled within twelve months after reporting date.

13. Guarantees and Commitments

Netherlands Reinsurance Company for Losses from Terrorism

In 2020, VIVAT Schade will take a 4.58 % share in the Non-life cluster (2019: 4.43%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2020, the guarantee will be € 3 million (one third of total guarantee of € 9 million) and total premiums will amount to € 0.2 million (2019: € 0.2 million).

Legal proceedings

In VIVAT Schadeverzekering's efforts to ensure compliance with applicable laws and regulations, instances of non-compliance occur. At present, these instances include Sanction and Anti money laundering regulation compliancy which are shared with the regulators including a timely action plan to address and resolve current and future instances.

As part of regular supervision by AFM, VIVATs compliance with the commission regulation was subject to assessments in 2019. In April 2019, the AFM has posed a fine of € 0.2 million on VIVAT Schade. This fine has been posed because of breach of the incudement regulation. It was decided not to appeal.

In VIVAT Schade’s ordinary course of its business disputes arise, mainly regarding coverage and compensation of damages. These lead to proceedings involving claims by but mostly against VIVAT Schade. 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 proceedings, VIVAT Schade is not aware of any proceedings (including any such proceedings which are pending or threatened of which VIVAT Schade is aware) which may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of VIVAT Schade.

Guarantee schemes

As per 1 January 2019, the Recovery and Resolution insurance companies Act *(Wet herstel en afwikkeling van verzekeraars*) came into force. This also affects VIVAT Schadeverzekeringen NV. The Recovery and Resolution insurance companies Act will enable insurance companies and DNB to be better prepared for a crisis situation and gives DNB opportunities to intervene better in case of a bankruptcy of an insurance company. In those cases DNB is enforced to take care of the interests of policyholders.

14. Related Parties

Identity of Related Parties

Parties are considered to be related if one party can exercise control or significantly affect the other party’s financial or operating policies. VIVAT Schade’s related parties are its parent Anbang, its parent VIVAT, affiliates and VIVAT Schade's key management personnel and their close family members. Unless stated otherwise, transactions with related parties are conducted at arm’s length.

Intra-group Balances and Transactions between VIVAT Schade, VIVAT, Anbang and Affiliates

In € thousands	VIVAT		Affiliates		Total	
	2019	2018	2019	2018	2019	2018
> Positions						
Other assets (receivables from group companies)	2,385	4,348	–	–	**2,385**	**4,348**
Other assets (reimbursement right)	–	–	23,599	19,762	**23,599**	**19,762**
Subordinated private loans	150,000	150,000	–	–	**150,000**	**150,000**
Corporate income tax payable	11,169	2,482	–	–	**11,169**	**2,482**
Other liabilities (liabilities to group companies)	14,054	11,578	15,463	26,305	**29,517**	**37,883**
> Transactions						
Interest income	1	1	–	–	**1**	**1**
Interest expense	9,940	9,944	7	5	**9,947**	**9,949**
Service fees expenses	–	–	932	1,077	**932**	**1,077**
Staff costs	45,026	45,914	–	–	**45,026**	**45,914**
Other operating expenses	23,158	26,449	–	–	**23,158**	**26,449**
Net premium	140	143	36	105	**176**	**248**
Claims paid	–	–	–	20	**-**	**20**

In 2019 and 2018, VIVAT Schade had no intra-group positions and transactions with Anbang.

Intra-group Balances and Transactions with Key Management Personnel of VIVAT Schade

The key management personnel consists exclusively of the members of the Executive Board and the Supervisory Board. This applies to VIVAT Schadeverzekeringen NV and also to VIVAT NV, SRLEV NV and Proteq Levensverzekeringen NV.

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of VIVAT Schadeverzekeringen NV. The remuneration information is presented on VIVAT level.

The Executive Board comprised six members as at 31 December 2019 (31 December 2018: 6). The Supervisory Board comprised five members as at 31 December 2019 (31 December 2018: 5).

Actual Remuneration (former) Members of the Executive Board

The following table provides a breakdown of the total remuneration of the Executive Board, including former and existing key management.

Breakdown of Remuneration (former) Members of the Executive Board

In € thousands	2019	2018
Short-term employee benefits	4,677	4,372
Post-employment benefits	124	138
Other long-term benefits	308	3
Total	**5,109**	**4,513**

The other long-term beníſits and a part of the short-term employee beníſits relate to a retention scheme as recognised in the statement of profit or loss; the vesting of this scheme is subject to certain conditions and any payment will be made in instalments based on current remuneration regulations.

Reference is made to Section 6.1.5 for the accounting principles of employee benefits.

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2019 (and 2018) and/or granted to members of the Executive Board during 2019.

Actual Remuneration Members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members (excluding 21% VAT).

Breakdown of Remuneration Members of the Supervisory Board

In € thousands	2019	2018
Total fixed actual remuneration of Supervisory Board members	610	610
Total remuneration for the members of the Supervisory Board's Committees	25	25
Total	**635**	**635**

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2019 (and 2018) and/or granted to members of the Supervisory Board during 2019.

15. Events after the Reporting Date

New Shareholder

On 7 June 2019, Anbang reached a conditional agreement with Athora on the sale of all shares in VIVAT. Athora agreed a follow-on sale of VIVAT Schadeverzekeringen NV (VIVAT Schade) to Nationale-Nederlanden Schadeverzekering Maatschappij NV (NN Schade). Once Athora has become the 100% owner of VIVAT NV, the shares in VIVAT Schade will be transferred to NN Schade.

On 19 March 2020, VIVAT was informed that Athora received a Declaration of No-objection (DNO) from the Dutch Central Bank (DNB) for the transaction. NN also received a DNO from DNB in relation to its follow-on acquisition of VIVAT Schade. These approvals follow earlier clearances including approval from the European Commission for Athora's acquisition of VIVAT and from the Netherlands Authority for Consumers and Markets (ACM) for the acquisition of VIVAT Schade by NN Schade. In addition, the VIVAT works council has rendered its positive advice regarding the Transaction and the acquisition of VIVAT Schade by NN Schade. The transaction is expected to close early April 2020.

New Chief Executive Officer

Chief Executive Officer Ron van Oijen has resigned from his position effective 31 January 2020. Effective 1 April 2020, Tom Kliphuis has been appointed as new Chief Executive Officer. During the transition period, Maarten Dijkshoorn will be the Supervisory Board member delegate.

Changes to Executive Board

On 19 March 2020, VIVAT announced the appointment of three new members to the Executive Board of VIVAT. VIVAT Schade appointed two new members.

In respect of the Executive board of VIVAT Schade, Angelo Sacca will be appointed as Chief Strategy & Commercial Officer and Stefan Spohr as Chief Operating Officer as of the Closing Date.

Xiao Wei (Charlene) Wu, Wendy de Ruiter-Lörx, Lan Tang and Jeroen Potjes will resign from the Executive Board of VIVAT and VIVAT Schade as of the Closing Date.

As a result, the Executive Board of VIVAT Schade will be composed of the following persons:

- Tom Kliphuis – Chief Executive Officer (as per 1 April 2020)
- Yinhua Cao – Chief Financial Officer
- Angelo Sacca – Chief Strategy & Commercial Officer (as per Closing Date)
- Stefan Spohr – Chief Operating Officer (as per Closing Date)

Changes to Supervisory Board

On 19 March 2020, VIVAT announced that Hanny Kemna, Floris Deckers and Michele Bareggi will be appointed as members of the Supervisory Board of VIVAT and of VIVAT Schade. Miriam van Dongen, Ming He and Kevin Shum will not continue as members of the Supervisory Board of VIVAT and of VIVAT Schade as of the Closing Date.

As a result, the Supervisory Board of VIVAT and VIVAT Schade will be composed of the following persons as of the Closing Date:

- Maarten Dijkshoorn (chairman)
- Pierre Lefèvre
- Hanny Kemna
- Floris Deckers
- Michele Bareggi

China Banking and Insurance Regulatory Commission

In February 2018, the China Banking and Insurance Regulatory Commission (CBIRC) – formerly known as the China Insurance Regulatory Commission (CIRC) – temporarily took over management of Anbang Insurance Group Co. Ltd. In February 2020, CBIRC announced it had ended its two-year period take over.

COVID-19 Outbreak

The COVID-19 outbreak in the first months of 2020 is causing significant impact to our society, including VIVAT Schade, its policyholders and other stakeholders like suppliers and employees. Financial markets have been volatile recently with significant decrease in interest rates and equity markets and by credit spreads widening. The Dutch government as well as other governments and central banks are responding with aid packages and further quantitative easing. At the date of the Annual Report of VIVAT Schade the depth and length of these disruptions caused by COVID-19 is unknown.

To assess the impact on VIVAT Schade's financial position and result, we are continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and are taking mitigation actions as necessary. The most significant risks VIVAT Schade facing relate to financial markets and underwriting risks especially related to mortality, morbidity and policyholder behavior.

Given the uncertainties and ongoing developments, as at the date of the Annual Report, VIVAT Schade cannot accurately and reliably estimate the quantitative ultimate impact on our financial position and result from the COVID-19 outbreak. Nevertheless, low interest rates for a long period are likely to impact the profitability of VIVAT Schade's sales depending on the market response, while underwriting results may also be impacted subject to the severity of COVID-19 outbreak.

VIVAT Schade has invoked its business continuity plans to support the safety and well-being of its staff. Since Monday 16 March 2020, nearly all VIVAT Schade employees have been working from home. VIVAT Schade is proud of the willingness and flexibility of all its employees which contributes to the capability to support our policyholders and business operations.

Claims Storm Ciara

In February 2020 the claims regarding storm Ciara for VIVAT Schade were around € 7.2 million before tax.

16. Net Premium Income

Premium income consists of insurance premiums net of reinsurance premiums.

Breakdown of net premium income

	Gross		Reinsurance		Total	
In € thousands	2019	2018	2019	2018	2019	2018
Fire	267,691	228,091	-15,892	-15,969	**251,799**	**212,122**
Accident and health	107,867	110,545	-4,851	-5,045	**103,016**	**105,500**
Motor vehicle	231,767	221,354	-2,200	-1,995	**229,567**	**219,359**
Transport	47,484	41,089	-3,134	-1,378	**44,350**	**39,711**
General liability	64,380	56,795	-474	-1,373	**63,906**	**55,422**
Other segments	70,164	65,548	-19,833	-18,562	**50,331**	**46,986**
Total	**789,353**	**723,422**	**-46,384**	**-44,322**	**742,969**	**679,100**

Premium income increased as a result of growth in the authorized agents, Co-Insurance and Personal lines portfolio (mainly Fire).

17. Net Fee and Commission Income

Breakdown of net fee and commission income

In € thousands	2019	2018
Insurance agency activities	1,606	1,855
Total fee and commission income:	**1,606**	**1,855**

18. Investment Income

Breakdown of investment income

In € thousands	2019	2018
Fair value through profit or loss	4,494	2,370
Available for sale	13,150	19,005
Loans and receivables	403	21
Total	**18,047**	**21,396**

Breakdown of investment income 2019

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Interest	4,496	7,789	403	**12,688**
Dividend	–	2,547	–	**2,547**
Total interest and dividends	**4,496**	**10,336**	**403**	**15,235**
Realised revaluations	-2	2,814	–	**2,812**
Total revaluations	**-2**	**2,814**	**-**	**2,812**
Total	**4,494**	**13,150**	**403**	**18,047**

Investment income from Fair value through profit or loss consists of € 4,496 thousand interest income from derivatives.

Realised revaluations on AFS investments are lower in 2019 compared to previous year. Positive unrealised revaluations AFS investments remained in 2019 in equity due to limited derecognitions of investments. Realised revaluations in 2018 included the sale of the investments in CED Holding BV (€ 4.3 million).

Breakdown of investment income 2018

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Interest	2,340	11,289	21	**13,650**
Dividend	–	-1,157	–	**-1,157**
Total interest and dividends	**2,340**	**10,132**	**21**	**12,493**
Realised revaluations	31	8,873	–	**8,904**
Unrealised revaluations	-1	–	–	**-1**
Total revaluations	**30**	**8,873**	**-**	**8,903**
Total	**2,370**	**19,005**	**21**	**21,396**

19. Result on Derivatives

The result on derivatives in 2019 (€ 31,693 thousand) are a result of movement in interest (2018: € 6,650 thousand).

20. Technical Claims and Benefits

Technical claims and benefits include claims paid, changes in provision for claims payable and changes in provision for claims incurred but not reported.

Breakdown of Technical Claims and Benefits

	Gross		Reinsurance		Total	
In € thousands	2019	2018	2019	2018	2019	2018
Claims paid	471,889	458,881	-31,671	-27,913	440,218	430,968
Change in provision for reported claims	-20,079	16,811	11,211	-123	-8,868	16,688
Change in provision for claims incurred but not reported	-21,037	-32,070	6,847	6,948	-14,190	-25,122
Total	**430,773**	**443,622**	**-13,613**	**-21,088**	**417,160**	**422,534**

Claims and Benefits are € 5,374 thousand lower compared to 2018 mainly as a result of an update of expected loss ratio's.

21. Acquisition Costs for Insurance Activities

Breakdown of Acquisition Costs for Insurance Activities

In € thousands	2019	2018
Acquisition costs	173,839	160,931
Reinsurance	-8,871	-6,786
Total	**164,968**	**154,145**

Acquisition costs mainly increased as a result of growth in the authorized agents portfolio (higher premium income).

22. Staff Costs

Breakdown of Staff Costs

In € thousands	2019	2018[1]
Salaries	49,591	43,584
Pension costs	8,265	8,774
Social security contributions	9,074	6,524
Other staff costs	19,449	26,188
Total	**86,379**	**85,070**

[1] Compared to annual report 2018 the comparitive figures have been adjusted as a consequence of the reclassification within the ABC model. Total costs remained unchanged.

According to the CLA employees have received a periodic salary increase on 1 February 2019. The periodic salary increase for Above-CLA employees was also based on the CLA. There was no collective salary adjustment (CLA) in 2019. Salaries of the members of the Executive Board were not increased.

The staff cost slightly increased compared to 2018. The increase of salaries is compensated by a decrease of other staff cost. The increase of salaries can be ascribed to aforementioned periodic salary increase on 1 February 2019 and to an one-off compensation rewarded to all VIVAT employees and expenses relating to specific retention agreements in 2019. The 2018 cost have been affected positively by a release of bonus provision and by the fact that the salary increase 2018 (collactive labour agreement) was applicable as per 1 july 2018.

The other staff costs relate to staff costs recharged by VIVAT NV. The decrease can be ascribe to cost savings.

Number of Internal FTE's

In numbers	2019	2018
Number of internal FTEs	678	711

23. Other Operating Expenses

Breakdown of Other Operating Expenses

In € thousands	2019	2018
IT systems	8,143	10,195
Housing	2,483	3,322
Marketing and public relations	5,896	6,094
External advisors	1,744	3,566
Other costs	7,380	6,686
Total	**25,646**	**29,863**

The increase of other costs is a result of allocation of the overhead costs to other line items.

24. Impairment Losses (Reversals)

Breakdown of Impairment Losses / Reversals by Class of Asset

	Impairments		Reversals		Total	
In € thousands	2019	2018	2019	2018	2019	2018
> Through profit or loss						
Investments	8	44	-	-	**8**	**44**
Other assets	6,430	167	3,741	529	**2,689**	**-362**
Total through profit or loss	**6,438**	**211**	**3,741**	**529**	**2,697**	**-318**

The increase of impairments in 2019 is mainly driven by the impairment of pension scheme former AXA (€ 5.9 million).

25. Other Interest Expenses

Breakdown of Other Interest Expenses

In € thousands	2019	2018
Private loans	9,940	9,944
Interest deposits	469	578
Other interest and investment expenses	112	147
Total	**10,521**	**10,669**

26. Income Tax

Breakdown of Tax Expense

In € thousands	2019	2018
In financial year	14,739	-5,448
Corporate income tax due	**14,739**	**-5,448**
Due to temporary differences	6,951	5,958
Due to change in income tax rate with regard to deferred tax	-689	-15
Deferred tax (including tax rate change)	**6,262**	**5,943**
Total	**21,001**	**495**

The corporate income taxes are irrevocable for the years up to and including 2017.

Reconciliation Between the Statutory and Effective Tax Rate

In € thousands	2019	2018
Statutory income tax rate	25.0%	25.0%
Result before tax	86,560	10,132
Statutory corporate income tax amount	**21,640**	**2,533**
Effect of participation exemption	-	-2,023
Due to change in income tax rate with regard to deferred tax	-689	-15
Other items	50	-
Total	**21,001**	**495**
Effective tax rate	24.3%	4.9%

The effective tax rate 24.3% differs compared to the nominal rate of 25%. This is the result of the impact of the change in corporate income tax rate on the deferred tax position in 2019 as explained in note 10.

27. Income tax effects relating to Other Comprehensive Income

Breakdown of Income tax effects relating to Other Comprehensive Income

	Before tax amount		Tax (expense) benefit		Net of tax amount	
In € thousands	2019	2018	2019	2018	2019	2018
Changes in valuation of defined benefit pension plan	-1,112	2,231	227	-498	**-885**	**1,733**
Change in other reserves	-	-27	-	-	**-**	**-27**
Unrealised revaluations investments available for sale	-2,503	-25,312	-1,997	6,064	**-4,500**	**-19,248**
Impairments and reversals fair value reserve	-8	-44	2	11	**-6**	**-33**
Realised gains and losses fair value reserve transferred to profit or loss	2,814	-8,873	-725	1,133	**2,089**	**-7,740**
Total other comprehensive income	**-809**	**-32,025**	**-2,493**	**6,710**	**-3,302**	**-25,315**

The unrealised revaluations includes € -11.0 million that is tax exempt.

28. Financial Instruments

Fair Value of Financial Assets and Liabilities

The table below shows the fair value of VIVAT Schade's financial assets and liabilities. It only shows the financial assets and financial liabilities and does not include items that do not meet the definition of a financial asset or liability. The total fair value shown below does not represent the value of the company as a whole.

Fair Value of Financial Assets and Liabilities

In € thousands	Fair value 2019	Carrying amount 2019	Fair value 2018	Carrying amount 2018
Financial assets				
- Available for sale	1,551,508	1,551,508	1,555,624	1,555,624
- Loans and receivables	43,256	43,269	1,115	1,110
Derivatives	50,964	50,964	23,307	23,307
Other assets	62,328	62,328	60,726	60,726
Cash and cash equivalents	46,328	46,328	49,909	49,909
Total financial assets	**1,754,384**	**1,754,397**	**1,690,681**	**1,690,676**
Financial liabilities				
Subordinated debt	156,633	150,000	155,351	150,000
Derivatives	-	-	5,945	5,945
Amounts due to banks	52,226	52,226	17,049	17,049
Other liabilities	83,881	83,881	102,003	102,003
Total financial liabilities	**292,740**	**286,107**	**280,348**	**274,997**

The fair values represent the amount that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the reporting date. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If prices in an active market are not available, various valuation techniques are used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and various assumptions are used, for instance for the discount rate and the timing and size of expected future cash flows. Where possible and if available, the valuation techniques make use of observable inputs in relevant markets. Changes in assumptions can significantly influence estimated fair values. The main assumptions for each item are explained in the section on fair value hierarchy below.

The carrying amount of financial assets and liabilities at amortised cost is shown excluding accrued interest. Accrued interest related to these instruments is recognised within other assets or other liabilities.

Measurement of Financial Assets and Liabilities

The following methods and assumptions are used to determine the fair value of financial instruments.

Investments

The fair value of equities is based on quoted prices in an active market or other available market data. The fair value of interest-bearing securities, exclusive of mortgage loans, is also based on quoted market prices or if actively quoted market prices are not available, on the discounted value of expected future cash flows. These discounted values are based on the relevant market interest rate, taking into consideration the liquidity, creditworthiness and maturity of the investment.

Derivatives

The fair value of nearly all derivatives is based on observable market inputs, such as market interest rates and foreign exchange rates. The fair value of a number of non-publicly traded derivatives depends on the type of instrument and is based on a discounted value model or an option valuation model.

Other Assets

Given the predominantly short-term nature of other assets, the carrying amount is considered to be a reasonable approximation of the fair value.

Cash and Cash Equivalents

The carrying amount of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

Subordinated Debts

The fair value of subordinated debts has been estimated based on the discounted value of future cash flows, using the prevailing interest rate plus a risk premium. The risk premium is based on the credit risk assumed by the market at years' end for holding subordinated debt issued by VIVAT Schade, differentiated by maturity and type of instrument.

Amounts Due to Banks

The fair value of amounts due to banks has been estimated based on the discounted value of the future cash flows, using the prevailing interest rate plus a risk premium. The risk premium is based on the credit risk assumed by the market for holding such instruments issued by VIVAT Schade, differentiated by maturity and type of instrument. The carrying amount of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

Other Liabilities

The carrying amount of the other liabilities is considered to be a reasonable approximation of the fair value.

Hierarchy in Determining The Fair Value of Financial Instruments

A large part of the financial instruments is recognised at fair value. The fair value of financial instruments measured at fair value in the statement of financial position or for which the fair value is disclosed is classified as a level. This level depends on the parameters used to determine fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair Value Based on Quoted Prices in an Active Market

Quoted prices from exchanges, brokers or pricing institutions are observable for all financial instruments in this valuation category. In addition, these financial instruments are traded on an active market, which allows the price to accurately reflect current and regular market transactions between independent parties. The investments in this category mainly concern listed equities and bonds, including investment funds on account of policyholders whose underlying investments are listed.

Level 2 – Fair Value Based on Observable Inputs

This category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market inputs. These instruments are mostly privately negotiated derivatives and private loans. This category also includes investments whose prices have been supplied by brokers but for which there are inactive markets. In these cases, available prices are largely supported and validated using market inputs, including market rates and actual risk premiums related to credit rating and sector classification.

Level 3 – Fair Value not Based on Observable Market Data

The financial instruments in this category have been assessed individually. The valuation is based on management’s best estimate, taking into account most recently known prices and available financial information in order to estimate future revenues, costs and profitability. Subsequently in most cases a discounted cash flow model is used in wich the disount rate is the key input parameter. In many cases analyses prepared by external valuation agencies are used. These analyses are based on data unobservable in the market, such as assumed default rates associated with certain ratings.

The table below shows the instruments in level 1, level 2 and level 3. Financial assets and liabilities not measured at fair value and whose carrying amount is a reasonable approximation of fair value are not classified by level.

Fair value hierarchy 2019

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	1,551,508	1,512,625	1,647	37,236	**1,551,508**
Derivatives	50,964	–	50,964	–	**50,964**
> Financial assets not measured at fair value					
Investments loans and receivables	43,269	–	43,256	–	**43,256**
Other assets	62,328	–	–	–	**62,328**
Cash and cash equivalents	46,328	–	–	–	**46,328**
> Financial liabilities not measured at fair value					
Subordinated debts	150,000	–	–	156,633	**156,633**
Amounts due to banks	52,226	–	–	–	**52,226**
Other liabilities	83,881	–	–	–	**83,881**

Fair value hierarchy 2018

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	1,555,624	1,513,139	7,269	35,216	**1,555,624**
Derivatives	23,307	–	23,307	–	**23,307**
> Financial assets not measured at fair value					
Investments loans and receivables	1,110	–	1,115	–	**1,115**
Other assets	60,726	–	–	–	**60,726**
Cash and cash equivalents	49,909	–	–	–	**49,909**
> Financial liabilities measured at fair value					
Derivatives	5,945	–	5,945	–	**5,945**
> Financial liabilities not measured at fair value					
Subordinated debts	150,000	–	–	155,351	**155,351**
Amounts due to banks	17,049	–	–	–	**17,049**
Other liabilities	102,003	–	–	–	**102,003**

The table below shows the movements in financial instruments measured at fair value and classified in level 3.

Statement of Changes in Level 3 Financial Instruments in 2019

In € thousands	Available for sale
Balance as at 1 January	**35,216**
Realised gains or losses recognised in profit or loss	-11
Unrealised gains or losses recognised in other comprehensive income	-10,978
Purchase/acquisition	16,977
Sale/settlements	-3,932
Other	-36
Balance as at 31 December	**37,236**
Total gains and losses included in profit or loss	-11

Statement of Changes in Level 3 Financial Instruments in 2018

In € thousands	Available for sale
Balance as at 1 January	**42,369**
Transfer to level 3	2,722
Unrealised gains or losses recognised in other comprehensive income	-5,884
Sale/settlements	-3,991
Balance as at 31 December	**35,216**
Total gains and losses included in profit or loss	-

Breakdown of Level 3 Financial Instruments

In € thousands	2019	2018
Bonds issued by financial institutions	17,895	4,900
Equities	19,341	30,316
Total	**37,236**	**35,216**

The fair value financial instruments classified in level 3 is partly based on inputs that are not observable in the market.

The sensitivity of the fair value of equity securities is calculated as the movement in fair value of the equity securities in the event of a general shock in the market. In this calculation, the look through principal is taken into account. The calculation method of sensitivities in this chapter is similar to the method used in calculating the sensitivities in chapter 7 however limited to fair value level 3 classified securities.

Sensitivity as a result of a shock applied

	Impact on shareholders' equity	
In € millions	2019	2018
Equities +10%	2	3
Equities -10%	-2	-3
Interest +50 bps	-2	-2
Interest -50 bps	2	2

Impairments of Financial Instruments by Category

In € thousands	Level 1 2019	Level 1 2018	Level 2 2019	Level 2 2018	Level 3 2019	Level 3 2018	Total 2019	Total 2018
Equities	8	44	-	-	-	-	**8**	**44**
Total	**8**	**44**	**-**	**-**	**-**	**-**	**8**	**44**

Reclassification Between Levels 1, 2 and 3

In 2019 there were no movements in the financial assets and liabilities measured at fair value between the levels. At year-end 2018, € 2,722 thousand was transferred from level 2 to level 3.

Offsetting Financial Assets and Liabilities

The table below shows the financial assets and liabilities that are subject to offsetting and the related amounts that are not set off but serve to mitigate credit risk.

Financial Assets and Liabilities 2019

				Related amounts not netted in the carrying amount			
In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	50,964	-	50,964	-	52,225	-	**-1,261**
Total financial assets	**50,964**	**-**	**50,964**	**-**	**52,225**	**-**	**-1,261**

Financial Assets and Liabilities 2018

				Related amounts not netted in the carrying amount			
In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	23,307	-	23,307	-	23,232	-	**75**
Total financial assets	**23,307**	**-**	**23,307**	**-**	**23,232**	**-**	**75**
Financial liabilities							
Derivatives	5,945	-	5,945	-	5,945		
Total financial liabilities	**5,945**	**-**	**5,945**	**-**	**5,945**	**-**	**-**

Management of Past Due and Impaired Assets

The table below sets out the financial instruments by arrears and/or impairment.

Financial Instruments - Impairments 2019

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	1,550,487	-	2,110	-1,088	**1,551,509**
Loans and receivables	43,269	-	-	-	**43,269**
Other financial assets	60,264	9,034	-	-6,970	**62,328**
Total	**1,654,020**	**9,034**	**2,110**	**-8,058**	**1,657,106**

Financial Instruments - Impairments 2018

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	1,554,714	-	1,990	-1,080	**1,555,624**
Loans and receivables	1,110	-	-	-	**1,110**
Other financial assets	44,612	2,998	326	-3,195	**44,741**
Total	**1,600,436**	**2,998**	**2,316**	**-4,275**	**1,601,475**

VIVAT Schade recognises impairments on equities if the market value has fallen to 25% below cost price, or has been at least 5% below cost price uninterruptedly for at least nine months.

VIVAT Schade recognises impairments on fixed-income financial instruments if there is a loss event related to the financial instrument. To identify such events, the financial instruments are periodically assessed on the basis of a number of criteria set by Finance. Financial instruments meeting one or more of these criteria are analysed and assessed individually to determine whether there is a loss event.

Maturity schedule for financial liabilities

The table below shows the undiscounted cash flows from the principal financial liabilities, other than derivatives, by contract maturity date.

Liquidity calendar financial liabilities 2019

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debts	-	-	-	-	150,000	**150,000**
Amounts due to reinsurers	-	-	-	-	15,826	**15,826**
Amounts due to banks	52,226	-	-	-	-	**52,226**
Total	**52,226**	**-**	**-**	**-**	**165,826**	**218,052**

Liquidity calendar financial liabilities 2018

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debts	-	-	-	-	150,000	**150,000**
Amounts due to reinsurers	-	-	-	-	18,081	**18,081**
Amounts due to banks	17,049	-	-	-	-	**17,049**
Total	**17,049**	**-**	**-**	**-**	**168,081**	**185,130**

The table regarding the cash flows from insurance business can be found in chapter 7.6.2.1.

IFRS 9 Disclosures

As mentioned in the section 'Relevant New Standards' VIVAT Schade qualifies for the temporary exemption and consequently is allowed to defer the implementation of IFRS 9. Due to the application of the temporary exemption, VIVAT Schade is required to provide additional disclosures in order to enable comparability with financial statements published by entities applying IFRS 9. These disclosures concern the changes in fair value of financial instruments and credit risk exposure.

Changes in Fair Value

According to amended IFRS 4-requirements the disclosures concerning the fair value and the changes in fair value for all the interest bearing financial assets are disclosed divided on two groups:

- Financial assets that pass the SPPI-test excluding the financial assets held for trading or managed on a fair value basis;
- Other financial assets that fail the SPPI-test including financial assets held for trading and financial assets that are managed on a fair value basis.

Along with the Business Model Assessment, the Solely Payments of Principal and Interest (SPPI) test is one of the two criteria in IFRS 9 to determine whether an interest bearing financial asset should be classified as measured at amortised cost or fair value through other comprehensive income (FVOCI). It is tested whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

A financial asset that fails the SPPI-criterion is measured at fair value through profit or loss (FVTPL). Equity instruments and derivatives are excluded from the SPPI-test.

The disclosures are required for the following items:

Investments

Statement of Changes in Fair Value of Investments SPPI and non-SPPI 2019

In € thousands	Fair value through profit or loss: Designated SPPI[1]	Fair value through profit or loss: Designated non-SPPI	Available for sale SPPI[2]	Available for sale non-SPPI	Loans and receivables SPPI	Loans and receivables non-SPPI	Total SPPI	Total non-SPPI
Balance as at 1 January	**-**	**-**	**1,032,406**	**68,882**	**1,115**	**-**	**1,033,521**	**68,882**
Purchases and advances	-	-	1,384,062	7,787	42,351	-	**1,426,413**	**7,787**
Disposals and redemptions	-	-	-983,795	-12,156	-188	-	**-983,983**	**-12,156**
Changes in fair value	-	-	6,346	4,422	-18	-	**6,328**	**4,422**
Other movements	-	-	-21,927	-1,304	-4	-	**-21,931**	**-1,304**
Balance as at 31 December	**-**	**-**	**1,417,092**	**67,631**	**43,256**	**-**	**1,460,348**	**67,631**

1 According to IFRS 4.39 the amounts presented in the columns labelled SPPI correspond to the financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading or that is managed and whose performance is evaluated on a fair value basis. The amounts related to the assets excluded from the SPPI group are presented in the column labelled non-SPPI (even if these assets meet the SPPI condition).

2 Available for sale is excluding equity instruments which do not pass SPPI test.

Statement of Changes in Fair Value of Investments SPPI and non-SPPI 2018

In € thousands	Fair value through profit or loss: Designated SPPI[1]	Fair value through profit or loss: Designated non-SPPI	Available for sale SPPI[2]	Available for sale non-SPPI	Loans and receivables SPPI	Loans and receivables non-SPPI	Total SPPI	Total non-SPPI
Balance as at 1 January	**-**	**-**	**1,275,358**	**26,482**	**51,586**	**-**	**1,326,944**	**26,482**
Purchases and advances	-	-	657,336	48,863	-	-	**657,336**	**48,863**
Disposals and redemptions	-	-	-862,545	-982	-50,486	-	**-913,031**	**-982**
Changes in fair value	-	-	-30,119	-5,283	14	-	**-30,105**	**-5,283**
Other movements	-	-	-7,624	-198	-	-	**-7,624**	**-198**
Balance as at 31 December	**-**	**-**	**1,032,406**	**68,882**	**1,115**	**-**	**1,033,521**	**68,882**

1 According to IFRS 4.39 the amounts presented in the columns labelled SPPI correspond to the financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading or that is managed and whose performance is evaluated on a fair value basis. The amounts related to the assets excluded from the SPPI group are presented in the column labelled non-SPPI (even if these assets meet the SPPI condition).

2 Available for sale is excluding equity instruments which do not pass SPPI test.

Other movements includes accrued interest and received coupons.

Derivatives

By nature none of the derivatives meets the SPPI-test, therefore they are measured at fair value through profit or loss. For their fair value and the changes in fair value refer to section 6.3 Note 3 'Derivatives' in the notes to the consolidated financial statements.

Other Assets

There are items recognised under Other assets, that qualify as financial instruments under IFRS 9. All financial assets recognised under Other assets meet the SPPI-test. As these assets constitute short-term receivables that are expected to be recovered within 12 months, their face value is deemed to be an approximation of their fair value. Bearing in mind their short term character, no statement of changes is being presented. For more details refer to section 6.3 Note 4 'Other assets' in the notes to the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month. These items meet SPPI-conditions. For the changes in value of these items refer to the cash flow statement.

Credit Risk Disclosures

For the financial assets that pass the SPPI-test (excluding the financial assets held for trading or managed on a fair value basis) the disclosure of their carrying amounts under IAS 39 separated into credit risk rating grades need to be made. Additionally for the assets that do not have low credit risk, the fair value needs to be disclosed.

Breakdown of Fair Value of Financial Assets (rating) 2019

In € thousands	Fair value through profit or loss: Designated	Available for sale	Loans and receivables	Total
AAA	-	989,513	38,540	**1,028,053**
AA	-	188,615	-	**188,615**
A	-	104,019	-	**104,019**
BBB	-	120,383	-	**120,383**
< BBB	-	2,817	-	**2,817**
Not rated	-	11,745	4,729	**16,474**
Total	**-**	**1,417,092**	**43,269**	**1,460,361**

Breakdown of Fair Value of Financial Assets (rating) 2018

In € thousands	Fair value through profit or loss: Designated	Available for sale	Loans and receivables	Total
AAA	-	700,274	47	**700,321**
AA	-	115,740	-	**115,740**
A	-	103,951	-	**103,951**
BBB	-	107,819	-	**107,819**
< BBB	-	4,622	-	**4,622**
Not rated	-	-	1,063	**1,063**
Total	**-**	**1,032,406**	**1,110**	**1,033,516**

VIVAT Schade considers the financial assets with the credit rating BBB or higher as the assets with low credit risk. Assets that are not rated comprise mainly:

- Government bond. A bond issued by the municipality of Amsterdam, guaranteed by the Dutch government. As a result, this bond is considered to have a low credit risk.
- Depots held by insurer. Depots represent claims that VIVAT Schade has on reinsurers for reinsured losses that already have been paid to policyholders. Even if these receivables are not individually rated, all the reinsurance companies being the counterparties to these receivables have an investment credit rating, so it is our assumption that these reinsurance companies have a strong capacity to meet their contractual cash flow obligations in the near term. As a result, these receivables are considered to have a low credit risk.
- Private loans. The loan to St Wheel Bethesda is a loan to an hospital fully guaranteed by Waarborgfonds voor de Zorgsector (AAA rated). As a result, this instrument is assumed to have a low credit risk.

The assets rated lower than BBB are not considered to be the assets with low credit risk. As these assets are classified as available for sale, their fair value equals their carrying amount.

29. Hedging

VIVAT Schade uses various strategies for its insurance business to hedge its interest rate risk.

The nominal amounts of the derivatives used for hedging purposes shown in the table below reflect the degree to which VIVAT Schade is active in the relevant markets.

Derivatives for Hedging Purposes 2019

	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	-	-	258,000	**258,000**	50,964	-
Total	**-**	**-**	**258,000**	**258,000**	**50,964**	**-**

Derivatives for Hedging Purposes 2018

	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	-	400,000	298,000	**698,000**	23,307	-5,945
Total	**-**	**400,000**	**298,000**	**698,000**	**23,307**	**-5,945**

The notionals of the derivatives are not disclosed netted (positive and negative).

The nominal amounts are the units of account relating to the derivatives, specifying the relationship with the underlying values of the primary financial instruments. These nominal amounts are not an indication of the size of the cash flows or market and credit risks relating to the transactions.

30. List of Principal Subsidiaries

Overview of Principal Subsidiaries

Name	Country of incorporation and place of business	Nature of business or industry	Proportion of ordinary shares directly held by parent (%)
Nieuw Rotterdam Knight Schippers BV	The Netherlands, Amstelveen	Insurance	100
W. Haagman & Co. BV	The Netherlands, Amstelveen	Insurance	100
Volmachtkantoor Nederland BV	The Netherlands, Amstelveen	Brokerage	100
Bemiddelingskantoor Nederland BV	The Netherlands, Amstelveen	Brokerage	100

7. Managing Risks

7.1. Risk Management System

7.1.1. General

VIVAT Schade has established a Risk Management System (see figure 7) that is aimed at a controlled and effective achievement of the strategic objectives. It relates risks to the strategic, financial and operational objectives as well as to the objectives in the areas of sustainability and reputation. The framework consists of organisational, control and culture components. The management of VIVAT Schade recognises that transparency is a vital element in effective risk management. The Executive Board and the VIVAT Risk Committee (including VIVAT Schade), which is responsible for setting the Risk Management System, monitor that the desired culture and level of risk awareness are translated into identifiable aspects, such as desirable behaviour, details of the risk appetite or criteria for evaluation of employees.

The Executive Board of VIVAT Schade has set guidelines in the risk governance areas of strategy, risk appetite and culture in order to enable risk assessments to be performed properly and efficiently. These guidelines apply to the entire organisation. VIVAT Schade seeks to have an open culture in which risks can be discussed, employees feel a responsibility to share information on risks and (pro)active risk management is appreciated.

The established Integrated Control Framework (ICF), part of the Risk Management System, provides the basis for the internal control system on risk maturity of process key controls and management controls within VIVAT Schade. The management of Product or Functional Lines is responsible for day-to-day operations within the Risk Management System, schedules testing of operating effectiveness of key controls and prepares operational plans on a yearly basis. These plans are subject to the approval of the Executive Board of VIVAT Schade.

For all components within the ICF, standards include applicable minimum requirements. VIVAT N.V. (all components) is scored for each Product Line and Functional Line by a yearly assessment of all Management Controls, in which both first line and second line of defence are involved.

7.1.2. Overview

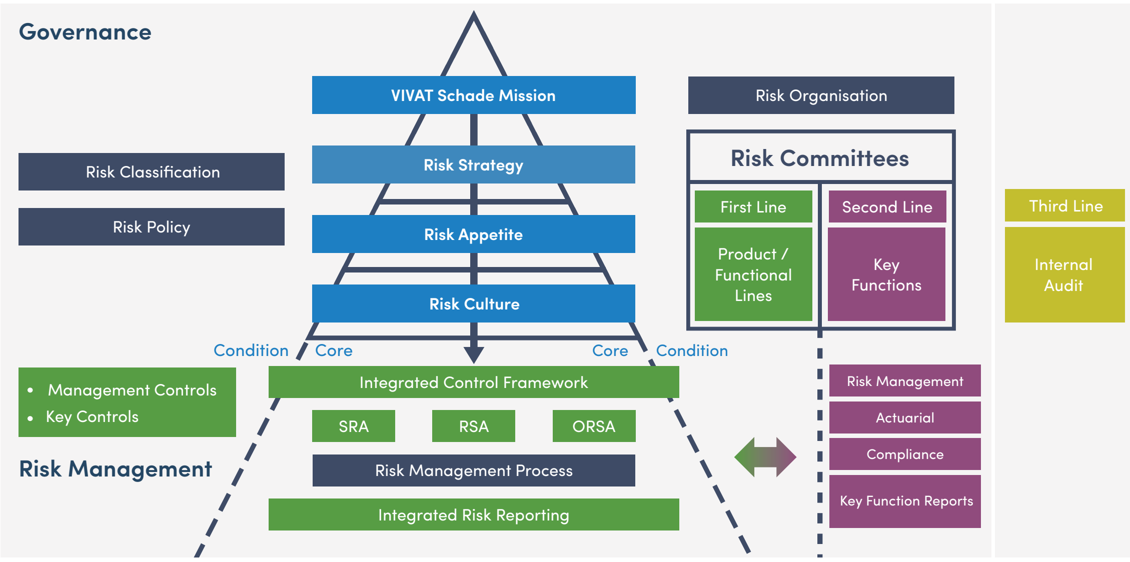
In the Risk Management System, specific Solvency II requirements such as the Key Functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. The Risk Management System of VIVAT Schade operates an integrated approach for risks that the organisation is or could be exposed to, with Risk Management being an integral part of the decision making process. Major decisions of the Executive Board have to be accompanied by a Key Function opinion.

The core of the Risk Management System consists of a Governance part and a Risk management part. In the governance part, starting from the Mission and business strategy, the Risk Strategy and Risk Appetite are derived. The components Risk Policy, Risk Classification and Risk Organisation are necessary conditions to enable these strategic risk processes. To ensure an integrated approach the first line product and functional lines and the second line key functions use the same risk classification, operations are covered by the Risk Appetite and are aligned by a policy structure.

Governance including an adequate Risk Culture, is conditional for performing risk management on tactical and operational level, with as the core a control cycle of risk identification-measurement- mitigation and continuous monitoring and reporting. The Risk Management Process is supported by the ICF, built up from several components that together form the basis for sound and controlled business operations and hence for visibly being in control of VIVAT and its Product and Functional lines. The ICF measures maturity of risk management and ensures steering on correct and complete risk reports.

The internal reports are a part of (the operation of) the Risk Management Process. The reports on recognised types of risks are input for the integrated risk reports, enabling Key Risk Indicator (KRI) monitoring and drawing management attention to deviations of the risk tolerance limits.

VIVAT Schade performs Risk Self Assessments (RSA) and Strategic Risk Assessments (SRA). An ORSA is incorporated in the VIVAT Schade Risk Management System and is performed at least annually.



Risk Management

7.2. Risk Management Governance

7.2.1. Mission

To achieve our mission to make financial choices easy, VIVAT Schade has set itself three main goals: Customer advocacy, Profitable growth and Cost discipline. With these goals as our starting point, we have set out a Risk Strategy that contributes to a sustainable profitable growth of VIVAT, for the benefit of all its stakeholders.

In order to achievethe mission, VIVAT Schade takes its role in society seriously. Corporate Social Responsibility (CSR) forms an integral part of the strategy and business operations. VIVAT Schade wishes to offer simple and comprehensible, competitively priced products in efficient business processes, using a central back office in addition. VIVAT Schade pursues a customer-centric strategy, with Reaal and nowGo positioned clearly and appealing to different segments. The focus on these flagship brands allows for a more agile and lean operation bringing costs to a lower required level.

7.2.2. Risk Strategy

VIVAT Schade has derived a Risk Strategy, a supporting set of objectives following from the VIVAT mission to achieve the strategic goals. VIVAT aims for a robust and strong capital position, which contributes to the trust of customers, employees, society and financial markets in the company. VIVAT offers competitively priced products by utilising economies of scale in its organisation. The Risk Strategy is expressed in the Risk Appetite.

As main principles VIVAT Schade has defined a robust capital position, a sustainable capital generation and sound and controlled business operations.

VIVAT Schade provides guarantees for future payments to its customer and therefore VIVAT Schade needs a strong capital position. The Executive Board would like to hold a buffer above regulatory requirement to absorb temporary volatility and provide more certainty to its customers.

7.2.3. Risk Appetite

The Risk Tolerance in the Risk Appetite is set yearly by the Executive Board and confirmed by the Risk Committee (RC) of the Supervisory Board. The Risk Tolerance is limited by the risk capacity, which indicates the maximum amount of risk VIVAT Schade can accept at consolidated level, in view of its capital and liquidity position and any restrictions due to funding agreements or requirements imposed by regulators. The risk tolerance is subsequently translated into practical risk objectives.

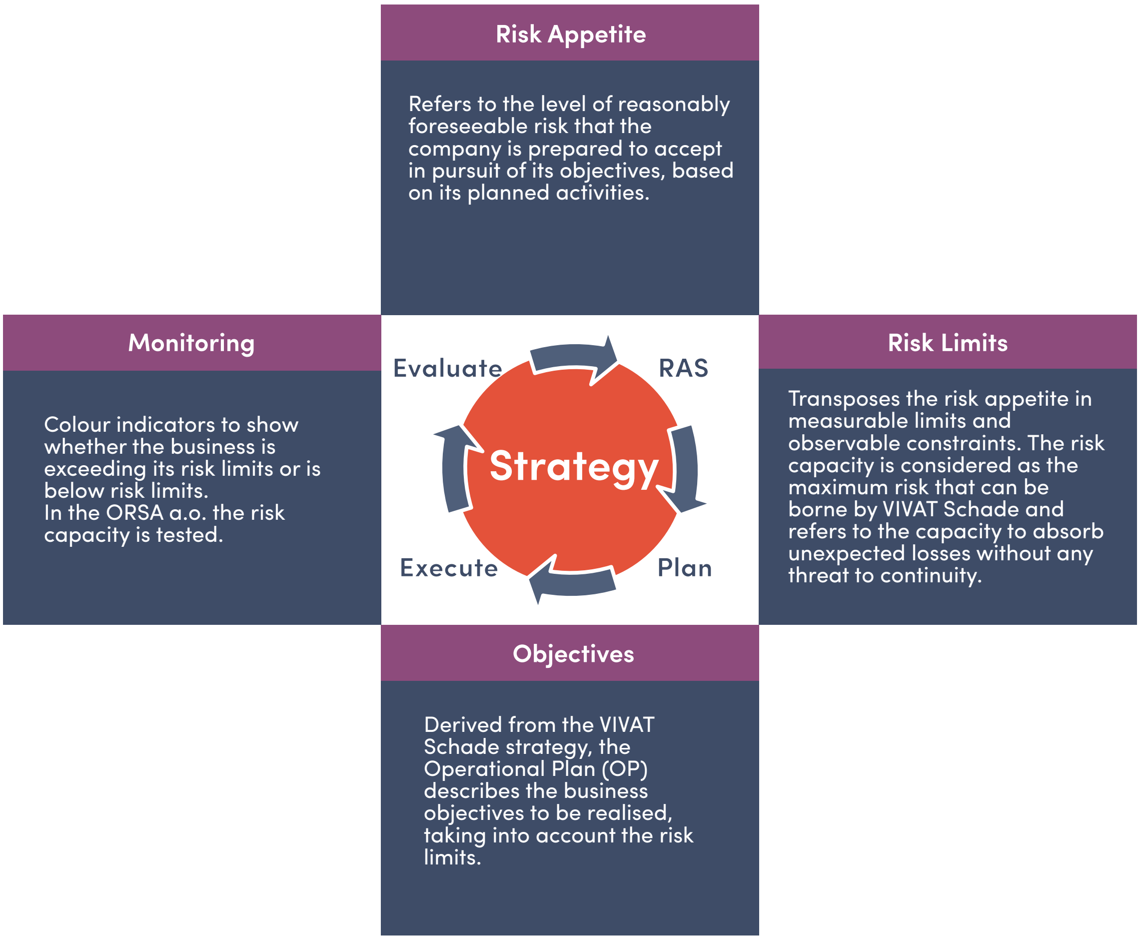


Figure 8: Risk Appetite framework

Risk Appetite is defined at VIVAT level, including VIVAT Schade. Subsequently it is elaborated for Financial risks and Non-financial risks on the individual legal entity level or specific Product or Functional Lines in the form of individual quantitative risk limits and qualitative constraints. The limits are measurable; the qualitative constraints are observable. When implementing the strategy, the Executive Board gives guidelines to the Product Lines for establishing Operational plans, taking into account the set Risk Appetite and corresponding limits on entity level. With those objectives and constraints as starting point, the Product Lines optimise risk and return by developing the best possible products and services.

The evaluation of the Risk Tolerance in the Risk Appetite, which is carried out at least once a year, consists of a number of steps, including risk identification, the determination of risk capacity, the selection of measures, risk mitigation, risk criteria, reporting and monitoring.

7.2.4. Risk Culture

Culture and conduct in general play a vital role in steering a company, and specifically in adequate risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. VIVAT Schade has awareness programmes in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. VIVAT Schade has five core behaviours: Client Focus, Result Driven, Immediate Execution, Take Responsibility and Change Attitude.

VIVAT Schade realises that the tone at the top is defining for Risk Culture, which makes communication and exemplary behaviour determinant. VIVAT Schade encourages an open corporate culture in which risks are to be discussed, employees feel responsible to share knowledge on risks and where (pro) active risk management is appreciated. Exemplary behaviour, the openness for discussion of dilemmas, practicability of policy and transparency are inseparably linked to an open corporate culture.

Risk Culture is also embedded in the organisation by risk management being an integral part of the organisational processes and decision making of VIVAT Schade. Decision making is clear, explicit, and in line with the Risk Policy and Risk Appetite of VIVAT Schade. The management team of the Product Line and Functional Lines promote awareness of risks and are supported by the second line departments of the Risk organisation. The management teams are responsible for ensuring that risk decisions are made in accordance with the delegated authorisations, in consultation with all second line Solvency II key functions.

Furthermore, VIVAT Schade ensures that senior management and employees on key functions at all times are fit and proper to fulfill their job. Finally, VIVATs Remuneration Policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

7.2.5. Risk Organisation

VIVAT Schade implemented the ‘Three Lines of Defence’ control model (3LoD) including the Solvency II Key Functions and a risk committee governance structure. It contributes to the strengthening of the Risk Culture, taking responsibility for managing risks and internal control, and eventually to the further optimisation and integration of the risk management.

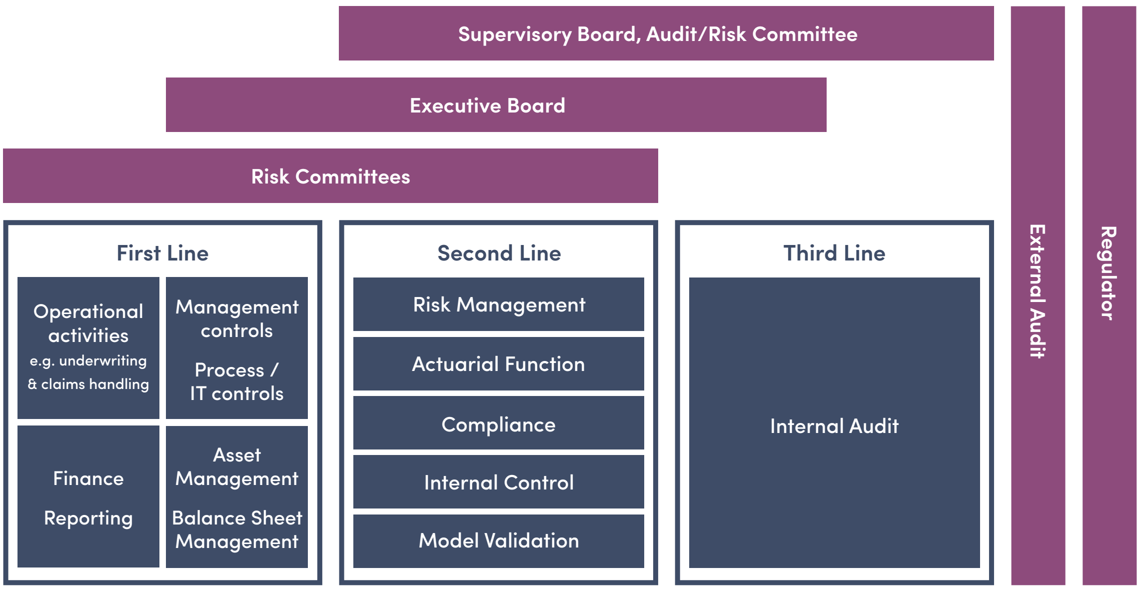


Figure 9: Three Lines of Defence

First line: risk taker

Business plans are prepared in the first line. With this preparation, the first line operationalises the (risk) strategy, focusing on the primary process (i.e. underwriting, claims handling, preparing financial accounts) of the business and investment activities.

Within the policy framework and subject to internal procedures and risk limits, it is the objective of the risk taker to achieve an optimum risk/return. Consequently risks are managed by identifying, measuring, mitigating and monitoring them and report whether the risks remain within the risk appetite of VIVAT and its underlying entities, including VIVAT Schade.

Risk Self Assessments are carried out and in combination with the ORSA, these assessments could lead to changes in the (risk) strategy. For all these activities the first line has an active role in various risk committees including the ability to demonstrate management and process controls according to the standards as set by the ICF.

Second line: risk management

The second line has a monitoring role in respect of the risk management actions and activities carried out by the first line. The second line assesses actions in the first line as well as the effectiveness of procedures by means of testing key controls, and is responsible for monitoring the overall risk profile to be in line with the risk appetite.

The second line is also responsible for formulating the Risk Management System and setting Risk Policies. The first line is responsible for the execution of these policies. The second line assesses policy compliance on a regular basis, using risk reports, reports on management and process key controls and own observations. Furthermore, the second line sets the mandates in line with the risk appetite. It also defines basic principles and preconditions for risk models and the control framework and supports central decision-making bodies. The data used, including models, assumptions and techniques, are validated periodically.

The second line risk management organisation of VIVAT, including VIVAT Schade, is part of the Risk department, resorting under the Chief Risk Officer (CRO). This department includes the second line Financial and Non-Financial Risk departments. The CRO is member of the Executive Board.

Third line: internal audit

Audit VIVAT is the independently operating audit function: Audit VIVAT provides assurance and consulting services, helping VIVAT to accomplish its objectives by evaluating and improving the effectiveness of governance, risk management and control processes.

Audit VIVAT does not take part in determining, implementing or steering of VIVAT's risk appetite, risk management processes and risk responses. Audit VIVAT reports to the chairman of the Executive Board of VIVAT and has direct access to the Chairman of the Audit Committee of the Supervisory Board of VIVAT.

Audit VIVAT performs risk based audits on VIVAT's risk management processes, including their design and how well they are working, on the management of key risks, including the effectiveness of the controls and other activities, and on the reliability and appropriateness of risks and reporting of risk and control status. This means formulating an opinion on whether the organisation's risk management methodology is understood by key groups or individuals involved, including the Executive Board and the Audit Committee.

Further, Audit assesses whether risk management processes are sufficient to protect the assets, reputation and ongoing operations of the organisation.

Risk Committees

In addition to the risk management organisation, VIVAT has established Risk Committees to manage risks effectively. VIVAT has established at Group level the following Risk Committees: VIVAT Risk Committee (VRC), Asset Liability Committee (ALCO), Policies Models and Assumptions Committee (PMAC), Investment Committee (IC), Operational Risk Committee (ORC VIVAT) and Product Committee (PC). The ORC VIVAT is leading for the underlying ORC MT's. In the ORC MTs, the issues regarding Operational Risk and Compliance are discussed. The PC is leading for the underlying PMP MT's (Product, Marketing, Pricing) in the Product Lines.

Key Functions

In accordance with Solvency II VIVAT recognises four Key Functions. The Functions are established on Group level and carry out activities on behalf of all insurance entities of VIVAT, including VIVAT Schade. The CRO is the Risk Management Function Holder, the Managing Director Risk is the Actuarial Function Holder and the Director Non-financial Risk is the Compliance Function Holder. The Director Audit VIVAT is the Audit Function Holder.

The Risk Management Function (RMF) coordinates the Enterprise Risk Management Report (ERM Report), an integrated report with Key Takeaways from the three second line Key Functions (Risk Management Function, Actuarial Function and Compliance Function). Besides the major financial and non-financial risks within VIVAT it shows strategic developments and emerging risks. The ERM Report presents issues compiled on the basis of the information obtained from monitoring reports, risk dashboards, RAS, Internal Control Statements, reports by internal and external regulators, incidents and issues reported, and own assessments & perceptions. The Risk opinion is discussed in the risk committees and in EB, VRC and the Risk Committee of the Supervisory Board.

The RMF provides annually the Risk Management Function Review Report, aimed at providing a sufficient level of assurance that the Solvency II-figures, and Solvency II and IFRS sensitivities, are determined adequate and reliable. This RMF report is submitted to the VRC and the Audit Committee of the Supervisory Board.

The Actuarial Function (AF) opines on the adequacy of the Technical Provision used for IFRS-LAT and Solvency II purposes. It furthermore assesses the reliability and adequacy of Underwriting and Reinsurance programmes. The Actuarial Function Report (AFR) is submitted to the VRC and the Audit Committee of the Supervisory Board.

Regularly the RMF and the AF submit an update based on the follow-up of findings in the AFR and RMF report, supplemented with recent findings and advices. This update is part of the ERM report.

The main purpose of the Compliance Function is to support management in conducting its business operations in a controlled, honest and sound manner, and with regard to the risks which in this context are a threat to achieving the strategic objectives, obligations arising from laws and regulations, insights from social discussions and guidelines imposed by regulators. The Compliance Function provides regularly, as part of the ERM Report, a report on the most important Compliance Risks of VIVAT Schade to the VRC and the Risk Committee of the Supervisory Board.

7.2.6. Risk Policy

VIVAT Schade has an integrated risk management policy structure incorporated in that of VIVAT. The entire policy structure is accessible to employees through the internal policy site. The policy structure ensures the timely identification and assessment of risks and adequate monitoring and reporting of the material risks, both on board and workplace level. The Risk Policy is structured in levels, the aim is to give insight in the cascading from (Solvency II-) legislation, (second line) risk policy, corresponding processes and (first line) implementation. At least once a year the Risk Policies are assessed, adjusted if necessary and approved following regular governance.

7.2.7. Risk Classification

VIVAT Schade provides insight into the risks for the business itself and for its stakeholders to manage these risks within the indicated tolerance levels. This includes both behaviour related and financial aspects of Risk Management. To provide clarity in the communication and management of risks, the risk classification incorporates a comprehensive list of mutually exclusive risk types to which VIVAT Schade is exposed or could be exposed to.

VIVAT Schade has defined and structured different risk types, partly on the basis of applicable laws and regulations (such as Solvency II Standard Formula), and partly on own assessment of risks given VIVAT's risk profile. As part of its strategy, VIVAT deliberately takes Underwriting risks and Market risks aiming for returns. As a consequence, taking Counterparty risk and Liquidity risk may contribute to those returns. Compliance risk and Operational risks are inherent risks that do not provide more returns when taking more risk and have to be controlled and managed at a minimal level.

Strategic developments (governance, positioning, external developments) relate to future business developments and may eventually emerge as one of the main or sub risk types and are monitored in the ERM Report. In the risk assessment on the Operational Plans several internal and external strategic development scenarios are taken into account.

VIVAT Schade applies the Solvency II Standard Formula. Not all of the risk categories are part of the Solvency Capital Requirement (SCR) calculation. The SCR calculation does not contain Liquidity, Model and Compliance Risk. The tables below show a breakdown of the SCR of VIVAT Schade.

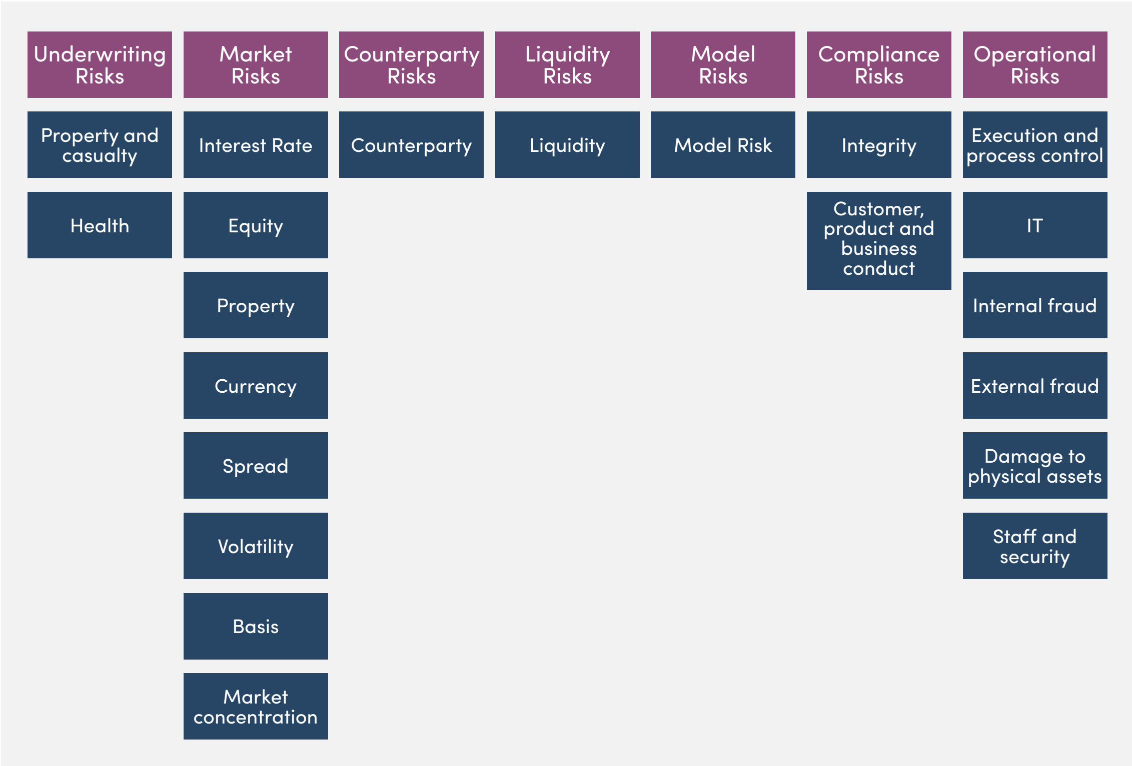


Figure 10: Risk classification

The risk categories will be explained in the more detail in the next paragraphs.

To give more insight in the risks the company is exposed to, sensitivities are determined on best effort basis for different underwriting and market risks in paragraph 7.5 and further. For underwriting risks and spread risks the sensitivities shown are the estimated impact on own funds without recalculating the SCR after shock. For the other market risks the sensitivities shown are the estimated impact on own funds including the estimated impact on the SCR market risk after shock.

7.3. Risk Control

Risk Management is a continuous process of identifying and assessing risks and establishing controls. Risk management is an inextricable part of the strategy, policy, processes, procedures, operational embedding, allocation of capacity and responsibilities, and independent testing of control effectiveness. The first and second line departments have been assigned a responsibility in this process, which is supported by the Integrated Control Framework (ICF).

7.3.1. Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management and process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and VIVAT Schade's risk appetite. This enables the identification of gaps in the control framework and monitoring on follow-up using a standardised approach.

The ICF forms the basis for sound and controlled operations within VIVAT Schade and monitors Process Controls and Management Controls.

7.3.2. Process Controls and Management Controls

Optimisation of Integrated Control Framework

VIVAT considers the improvement and optimisation of the Integrated Control Framework a continuous process as the organisation develops and changes over time. After the implementation of the Integrated Control Framework (ICF) and GRC tooling in the period 2015-2017, the ICF was further strengthened in 2019 by focus on the governance, quality of risk assessments and improvement of process and control design. Progress have been made in specific areas like re-assessment process design in prioritised areas (risk control matrix and control descriptions), embedding regulatory requirements in process- and management controls (e.g. related to GDPR and Sanction/AML regulation), increase the number of automated processes and controls, broadening of testing activities by the second line, incident analysis and increased analysis and reporting possibilities in GRC tooling. Further initiatives are started to re-assess roles and responsibilities, expand the (effective) use of risk assessments within the organisation and incident reporting in relation to an open and learning environment.

Management Controls – Maturity level

Overall, during 2019, the Product Lines and Functional Lines have been able to further improve or at least maintain comparable maturity levels. Amongst others an increase was measured in maturity on Data Management (including a.o. governance and data quality in Solvency II reporting), Information Security and Product Management.

Testing of Effectiveness

The effectiveness of Process (key) Controls within VIVAT is scheduled each quarter for testing by first line management. The second line (internal control) subsequently performs independent reviews or reperformance. Management Controls (or Entity level Controls) give insight in the maturity of risk management and mitigation in the individual product- and functional lines. The standards and control objectives used relate to relevant legislation (e.g. WFT, Solvency II) and internal policies. These Management Controls are yearly subject to a self-assessment which includes documentation of evidence, followed by a second line review. The professional standards and scoping used for testing by VIVAT's first and second line are assessed by the external auditor in order to, as much as possible, make use of these testing procedures for audit purposes.

7.3.3. Risk Management Process

In this section for Underwriting Risk, Market Risk, Counterparty Default Risk and Non-financial risk the Risk Management Process is elaborated. For Liquidity Risk and Model Risk this is included in sections 7.8 and 7.9.

7.3.3.1. Underwriting Risk

VIVAT Schade assesses new underwriting risks continuously and manages existing underwriting risks, for both new business and for the existing portfolio.

Operational Plan

Derived from the VIVAT Schade strategy, the Operational Plan (OP) sets targets with respect to volume and value of new business and the existing portfolio. The OP describes the planned development of the insurance portfolio together with the related capital requirement for the next three years taking into account an assigned risk budget or available capital. The OP sets out in broad terms whether VIVAT Schade wants to enter new markets, which forms of distribution will be used, whether new (forms of) insurance products will be developed, and which products will be adjusted or terminated. It also lays down possible measures relating to acceptance and the mitigation of claims.

Product Development, Pricing and Acceptance

In accordance with the OP, new or adjusted products are developed which follow the Product Approval and Review Process (PARP). Starting from the customer's interests the target group, coverage and terms and conditions are determined. This is the basis for the best estimate risk premium, taking into account options and guarantees, capital requirements and the internal pricing curve. Furthermore, criteria related to profitability and risk control measures (acceptance criteria, clauses, any reinsurance) must be met.

The Product Committee (PC), in which the Solvency II second line Key Functions are represented, is responsible for approval of new products, including the pricing. A selling product review is performed regularly, existing products follow a risk based product review calendar.

Technical Provisions

At the Non-Life Insurance businesses, all relevant information on portfolio and claims developments is used for the calculation of the Technical Provision and the SCR on a quarterly basis. The IFRS Liability Adequacy Test on the premium and claims reserves (for P&C including IBNR) is performed once a quarter, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insights as to parameters are involved. The Actuarial Function assesses the Solvency II Technical Provision and expresses an opinion on its reliability and adequacy at least once a year.

Parameter Study

For long-term policies (Disability) evaluation of the underwriting parameters (e.g. mortality, lapses, disability, recovery) takes place by a parameter study. The aim of this study is to value the existing insurance portfolio and set the cost price of new insurance policies. For short-term policies (P&C) the underwriting parameters are evaluated every quarter, other parameters (like lapse) at least once a year. Thereby relevant information on portfolio developments is taken into account. At the Non-Life business, the tariff structure of each product is regularly assessed by means of analysis. Monitoring takes place on the basis of the combined ratio of each branch and distribution.

Portfolio Analysis

Portfolio analysis is aimed at optimising risks and returns within the risk policy structure. This can lead to new strategic insights in areas such as entering new markets or terminating products. The analysis is based on the impact of underwriting risks following from various measures: SII own funds, long-term profitability, SCR and Combined Ratio on NB (P&C) and the VNB. Based on the risk appetite, VIVAT Schade mitigates underwriting risks primarily by means of diversification and reinsurance.

7.3.3.2. Market Risk

The ALM-policy covers the management of market risk, counterparty default risk and liquidity risk.

The starting point for the ALM policy is the Balance Sheet Assessment (BSA), which is drawn up annually. The BSA seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, laws and regulations. This BSA is used as a basis for defining a Strategic Asset Allocation (SAA), which is in turn used to translate specific investment activities into an investment plan and investment mandates for ACTIAM and selected other asset managers, taking into account the risk tolerances in the Risk Appetite Statements (RAS), solvency ratio, the tax position and the long-term risk exposure. When finalising the SAA, specific attention is paid to the availability of sufficient expertise in the segments in which investments are held. All investments are monitored by means of reports on performance and capital.

Investments are made in accordance with the prudent person principle and in the interest of the policyholders. The prudent person principle forms part of the ALM policy. Investments are made exclusively in assets and instruments for which the risks are properly identified, measured, monitored, managed, controlled and reported, but also comply with ESG principles.

VIVAT Schade monitors and mitigates market risk in close cooperation with ACTIAM. For mitigation, instruments such as interest rate swaps, futures, FX forwards, interest rate swaptions and fixed income investments are used.

Sensitivity Analyses and Stress Tests

Stress tests provide information on how sensitive investments and liabilities are to interest rate risk and other market risk. These risks are quantified (and monitored) on a regular basis.

For interest rate risk several parallel and non-parallel shocks are defined. For market risk a number of combined scenarios is determined with (different) simultaneous shocks to the various sub-market risks.

These market risk scenarios are monitored and reported on a regular basis, and if deemed necessary adjustments are made to existing market risk exposures (e.g. interest rate risk). The aim is to reduce the sensitivity of the Solvency II ratio within pre-defined risk appetite levels. This evaluation is supported by metrics for yield curve risk including non-linear interest rate risk (convexity). In this way VIVAT Schade manages interest rate risk of the Solvency II ratio.

This approach reflects the sensitivity of the entire statement of financial position (of fixed cash flows, options, risk margin and required capital) drawn up.

7.3.3.3. Counterparty Default Risk

Besides the calculation of SCR Counterparty Default Risk, VIVAT Schade has developed a complementary Counterparty Risk Policy for internal use. This risk is measured in terms of Stress Loss (SL) and Loss At Default (LAD) derived thereof and encompasses all instruments/exposures with credit exposures that are in scope for SCR Credit Spread, SCR Concentration Risk and SCR Counterparty Default Risk. Appropriate internal SL and LAD limits have been incorporated in the ALM policy and must be adhered to.

VIVAT Schade uses the methodology set out in the internal Counterparty Risk Policy to aggregate and monitor all counterparty exposures to various types of counterparties, such as (sub)sovereigns, financials and corporates on the individual counterparty basis. Monthly Counterparty Risk reports are generated and discussed by the Investment Committee for VIVAT and subsidiaries SRLEV, VIVAT Schadeverzekeringen and Proteq Levensverzekeringen, and appropriate measures are taken when limits are exceeded.

VIVAT Schade manages counterparty default risk within the set frameworks. Investments may have to be sold when deemed necessary. Risk mitigating contracts or clauses are drawn up in cooperation with ACTIAM and Legal Affairs. The counterparty default risk at VIVAT Schade is measured by the exposure to individual parties and, as the case may be, aggregating exposures with similar characteristics.

For each type of credit risk, the roles, powers and responsibilities of officers and committees, including tiered decision-making powers, are recorded in the policy documents for the relevant type of credit risk.

7.3.3.4. Non-financial Risk

In managing non-financial risks (Compliance risks and Operational risks, see section 7.9) VIVAT Schade follows the risk management process as described below. The Risk Control Framework consists of five key tasks.

Risk Identification

VIVAT Schade systematically analyses Compliance and Operational Risks in order to make the risks transparent. This will enable VIVAT Schade to control and manage its exposure within the risk tolerance limits in an efficient way. Risk identification is performed through risk assessments and, top-down and bottom-up risk analysis.

Risk Measurement

VIVAT Schade uses a methodology to measure its operational risks based upon the combination of the likelihood of occurrence and the impact upon occurrence of the risk. This methodology is referred to as the risk rating procedure. The risk rating procedure is an assessment of the risk exposure VIVAT Schade is facing at a certain moment in time, and an approach to assess the needs for controls, corrective actions and/or additional controls.

Risk Mitigation

NFR supports and challenges the first line in the recognition and mitigation of Non-Financial Risks. For this, it carries out research, monitors control measures and informs management. This includes an integrated incident overview, the Non-Financial Risk Appetite KRI scores, and the effectiveness of management and process controls to draw attention to relevant issues in the field of internal control. NFR facilitates the business in training & awareness on Compliance and Operational Risks.

Risk Monitoring

The objective of risk monitoring is to ensure that the internal control over the business processes remain effective and within the risk tolerance. Controls are designed to detect shortcomings in the control over processes. This is assessed through regular testing of the first line. Internal Control assesses through its monitoring activities whether the test results provide a reliable basis for the assessment of the level of control. NFR also monitors the progress of the implementation of laws and regulations and also on design, existence and operational effectives of the first line responsibility to implement laws and regulations.

Risk Reporting

In line with the VRC frequency NFR reports developments in non-financial risks and own observations in a Non-Financial Risk report, which provides a comprehensive overview of the major Non- Financial Risks and incidents within VIVAT, including VIVAT Schade. The Non-Financial Risk report is combined with the Financial Risk, Model Risk and Actuarial Function reports into the Enterprise Risk Management Key Take Aways.

Developments

In 2019 VIVAT Schade has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. This dynamic and change oriented environment, the announced strategic reorientation of our shareholder, new and changed legislation, combined with a continued focus on cost reduction and revenue models could influence operational and compliance risks. These risks are addressed, managed and monitored within the VIVAT risk framework to maintain a sound and controlled organisation.

7.4. Capital Management

7.4.1. Definition

Capitalisation refers to the extent to which VIVAT Schade has buffer capital available to cover unforeseen losses and to achieve the strategic objectives of the company. VIVAT Schade manages its capitalisation within limits set in the Risk Appetite. Annually target setting happens in the Operational Plan culminating in a Capital & Funding Plan. Monthly and quarterly forward looking monitoring enables VIVAT Schade taking timely action if capitalisation would deteriorate. VIVAT Schade assesses its capitalisation regularly with respect to level and quality in the ORSA and with respect to risk / return in the Balance Sheet Assessment.

7.4.2. Capital Policy

VIVAT Schade aims for a robust and strong capital position in accordance to its risk profile, which contributes to both the confidence that clients have in the institution and access to financial markets. VIVAT Schade deems a solvency ratio between 140% and 200% as a normal going concern level. The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet requirements. The available capital of VIVAT Schade has to meet internal risk appetite standards as well as external requirements of regulators, rating agencies and also includes commercial considerations. Capitalisation generally refers to the relationship between risk-bearing activities and available regulatory capital (own funds). The second objective of the Capital Policy is to ensure that capital is used as efficiently and flexibly as possible to facilitate the implementation of VIVAT Schade's strategy.

A preparatory crisis plan exists which describes the procedure that applies in a contingency situation. A contingency situation is a situation in which a capital deficit arises, or threatens to arise, that poses a direct threat to the going concern of VIVAT Schade. In its Risk Appetite, VIVAT Schade has defined specific triggers that determine whether a contingency situation exists. The emphasis of these triggers is on capital metrics and these are linked to governance and management measures. VIVAT's Capital Policy forms the basis for lower level policies, process descriptions and procedures.

Management uses the Operational Plan, Capital and Funding Plan, Balance Sheet Assessment, Risk Dashboards, ORSA, Preparatory Crisis Plan and Financial Risk Reporting for managing the capital position. The Capital and Funding Plan describes the medium-term activities relating to capital and funding, including a five-year solvency forecast. The Capital and Funding Plan is based on the Operational Plan as supplied by the underlying Product Lines.

7.4.3. Regulatory Framework

Solvency II is a risk-based regime consisting of three pillars. Pillar 1 regulates the capital requirements. Insurers should be capitalised adequate to their risks. Therefore, this pillar introduces two risk weighted measures: the Minimum Capital Ratio (MCR), and the Solvency Capital Ratio (SCR). Pillar 2 demands an adequate level of risk management and governance. Pillar 3 establishes standards of transparency.

7.4.4. ORSA

As part of its risk-management system VIVAT Schade conducts its own risk and solvency assessment (ORSA). That assessment includes:

- the overall assessment of solvency taking into account the specific risk profile, approved risk tolerance limits and the business strategy of VIVAT Schade;
- the significance in which the risk profile of VIVAT Schade deviates from the assumptions underlying the SCR calculated with the standard formula.

The ORSA is an integral part of VIVAT Schade's management control cycle and is filed with the regulator.

7.4.4.1. ORSA Process

The ORSA considers external factors, the business strategy, future developments, the risk profile and risk appetite to assess the amount and quality of capital. An overview is shown in the figure below.

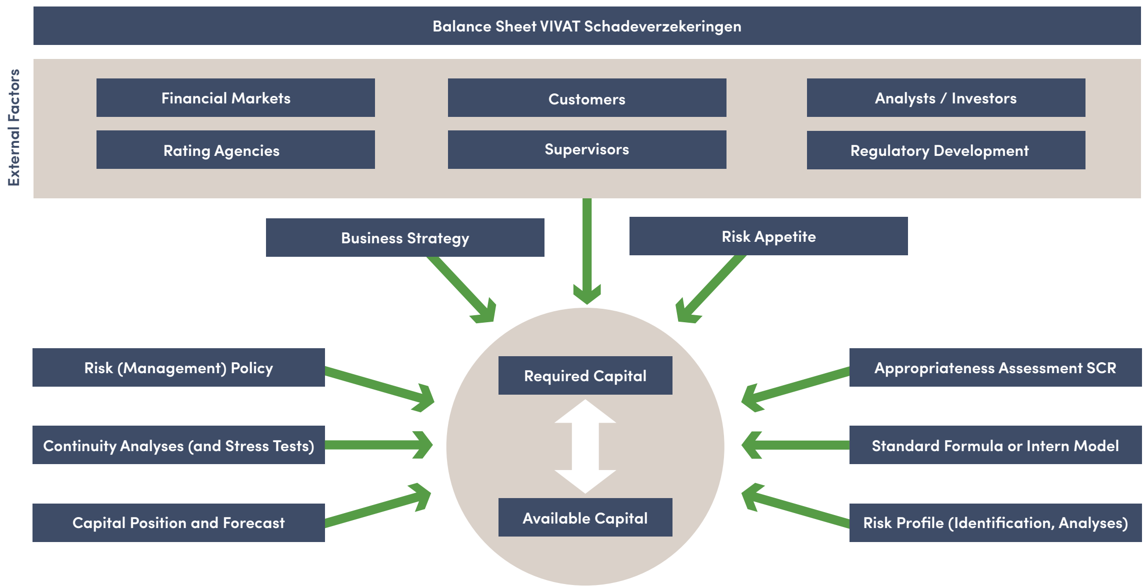


Figure 11: ORSA Process

The ORSA is performed annually for all entities of VIVAT, including VIVAT Schade, and if any significant change in its risk profile occurs. The Executive Board is owner of the ORSA and actively involved. The appropriateness of the risk measurement is assessed and adequacy of capital is tested against a range of stressed scenarios thereby considering the possible effect of management actions.

7.4.4.2. Scenario Tests and Mitigating Action

An extensive risk identification process takes place. The identified risks are subject to a range of stress scenarios, which are severe but plausible, to test the financial position of VIVAT Schade. This is in contrast to the Preparatory Crisis Plan, in which the scenarios should be severe enough to create a direct threat to the going concern of VIVAT Schade.

For all scenarios in the ORSA mitigating management actions have been assessed.

7.4.4.3. Main Conclusions

The ORSA concludes that VIVAT Schade's risk profile is well reflected in the SCR standard formula and Solvency is adequate. Risks that are out-of-scope of the standard formula have been identified in risk assessments, examined in stress scenarios and mitigated by managerial actions. The quality of VIVAT's capital is good, refinancing of a limited part of VIVAT's loans is only due in 2024. VIVAT and its insurance subsidiaries comply with capital requirements and substantial liquidity and a Revolving Credit Facility is available to recover from stress. VIVAT's re-risking plans would further improve capital generation and support the capital position going-forward, while reducing spread volatility by moving to an asset mix more in line with VA reference portfolio.

7.4.5. Preparatory Crisis Plan

On 1 January 2019, the new law on Recovery and Resolution of insurers (*Wet herstel en afwikkeling van verzekeraars*) came into force in The Netherlands. As a result of this law, VIVAT Schade has established a Preparatory Crisis Plan. In a Preparatory Crisis Plan an insurance group identifies its core businesses and sets out the possible key recovery measures to be taken in a situation of financial distress. The Preparatory Crisis Plan includes early warning indicators for emerging crises, a crisis management governance framework and the management actions VIVAT Schade has at its disposal in a crisis situation to maintain its core businesses viable for the future. The effectiveness of the management actions is evaluated using different stress scenarios.

7.4.6. Capital Position

In 2019, as part of VIVAT's strategy to achieve profitable growth for our company, VIVAT Schade remained focused on improving capital generation. For example, by improving the business contribution (improving the combined ratio of VIVAT Schade).

VIVAT Schade's Solvency II ratio increased from 156% at year-end 2018 to 165% at year-end 2019. This increase was mainly driven by an insurance parameter investigation that led to adjustments in parameters that had beneficial results on disability for health business and decreased expected loss ratios in property and casualty business. This movement was partly offset by a decrease in the interest rates and in the Volatility Adjustment (VA) from 24 bps to 7 bps, which had a negative impact on the Solvency II ratio.

VIVAT Schade hedges the Solvency II ratio for interest rates movements: when the interest rates decrease, Own Funds increase to offset the impact of an increase in the SCR. Although VIVAT Schade hedges the Solvency II ratio for interest rates movements within the Risk Appetite Statement boundaries of VIVAT Schade, the Solvency II ratio was slightly exposed to interest rate downward movement. As a result, the Solvency II ratio decreased by 8%-points during the year.

VIVAT Schade has a more conservative asset portfolio compared to the VA reference portfolio. Furthermore, the spread duration of the asset portfolio excluding interest rate derivatives is shorter than the liabilities (mainly health). As a result, the impact of the VA on the liabilities valuation was only offset for a small part by an increase in spread assets value. The combined negative impact on the Solvency II ratio is about 1%-points. Other market movements in equity and inflation had a negative impact on the Solvency ratio of around 2%.

One-time items (+22% Solvency II ratio) is mainly due to improved insurance parameters. Insurance parameters improved for both health (+17% Solvency II ratio) and property & casualty (P&C) business (+3% Solvency II ratio) and is the result of our regular parameter investigation.

The annual parameter update impact for P&C is driven by:

> decreases in expected loss ratios in the claim model (supported by a mild winter in 2019, no storms in the spring and less catastrophes in fire in current claim year leading to improve- ments in fire and motor business);

- decreases of the initial expected loss ratios in the premium model (driven by several measures coming into effect the coming year) and
- releases in the IBNR of asbestos, partly offset by increases in claims provision.

The regular parameter update impact for health business is driven by lower observed disability rates especially for ages between 35 and 53 years. Furthermore, it is noticeable that if disability occurs this leads often to a lower partial disability percentage.

Solvency II Ratio

The supervisory authorities EIOPA and DNB have produced several public guidance notes on the interpretation of Solvency II. VIVAT Schade produces all regulatory reports that are mandatory under the Solvency II legislation.

For internal purposes, VIVAT Schade calculates the Solvency II position on a quarterly basis and updates monthly this position in the intervening months. VIVAT Schade calculates its position under Solvency II using the standard formula, applying the Volatility Adjustment (VA) and thus making use of the possibility of applying long-term guarantee measures. VIVAT Schade does not apply the Matching Adjustment. The required and available capital (own funds) under Solvency II are determined on the basis of information at year-end. The yield curve used, including the Ultimate Forward Rate (UFR), Credit Risk Adjustment (CRA) and VA, is published by EIOPA.

EIOPA yearly re-calculates the UFR in accordance with the methodology to derive the UFR. For the euro the calculated target UFR for 2020 is 3.55%. As the UFR for the euro was 3.90% in 2019 and the annual change of the UFR is according to the methodology limited to 15 basis points, the applicable UFR is 3.75% in 2020. That UFR is for the first time applicable for the calculation of the risk-free interest rates of 1 January 2020.

Under Solvency II, capital is called 'eligible own funds' and is divided into three tiers. These tiers reflect the ability to absorb capital losses, with Tier 1 being the highest capital quality (which can be further split in restricted an unrestricted Tier 1 capital) and Tier 3 the lowest. VIVAT Schade does not have 'ancillary own funds' (such as letters of credit and guarantees) which require supervisory approval.

The following table shows the breakdown of the eligible own funds, starting from shareholders' equity:

Breakdown Own Funds

In € millions	2019	2018
Shareholders' equity	399	337
Reconciliation IFRS-Solvency II	71	72
Subordinated liabilities	157	155
Total available own funds	**627**	**564**
Tiering restriction	-	-
Total eligible own funds	**627**	**564**

Reconciliation IFRS-Solvency II

The reconciliation encompasses the following significant differences in measurement under Solvency II and under IFRS:

- Intangible assets - Under Solvency II goodwill is to be measured at zero. Other intangible assets can be recognised and measured at a value other than zero only if they can be sold separately and if there is a quoted market price in an active market for the same or similar intangible assets.
- Investments - Under IFRS the deposits and other loans and mortgages are measured at amortised cost. Under Solvency II these items are measured at fair value.
- Deferred Tax Liability – Due to differences in the valuation of the liabilities the resulting DTL position is different.

Subordinated Liabilities

Under Solvency II the available own funds include subordinated debt including accrued interest with regard to this debt. The subordinated liabilities are determined based on own credit standing (credit spread determined at pricing date).

Tiering Restriction

The use of own funds of different tiers is subject to certain limits under Solvency II. These limits are related to the required capital or Tier 1 capital, and is applied to define the Eligible Own Funds. These limits cause a difference between the Available Own Funds and the Eligible Own Funds. No tiering limits were breached per year-end 2019 (hence Available Own Funds equals Eligible Own Funds).

Breakdown tiering

	Tier 1		Tier 2	Tier 3	Total
In € millions	Unrestricted	Restricted			
Eligible own funds to meet the SCR 2019	470	-	157	-	**627**
Eligible own funds to meet the SCR 2018	409	-	155	-	**564**

The table below shows the eligible own funds, the Solvency Capital Requirement and the resulting Solvency II ratio.

Solvency II Ratio

In € millions/percentage	2019	2018[1]
Total eligible own funds	627	564
SCR	381	361
Solvency II ratio	165%	156%

[1] Figures as filed with the regulator

Development Solvency Ratio

The development in 2019 of the solvency ratio is explained by the analysis of change as presented in the graphs below. The movement consists of the categories Capital Generation, Capital Effects, Market Impacts, One-time items, Tax and Tiering effects and Miscellaneous Movements (Other).

Capital Generation is defined as the change of eligible own funds caused by (organic) capital generation due to expected asset return, technical results, release of Risk Margin and unwinding of the UFR.

In Capital Effects the effects to capital are shown (i.e. coupon payments to subordinated loans).

In Market Impacts the impact of economic variance to the asset and liability return is taken into account (e.g. spread and interest rate movement). Next to these movements, also the change caused by the Volatility Adjustment is taken into account.

One-time items show the impact of events like the UFR decrease, re-risking impact, insurance parameter updates and changes in models.

Changes of Tax and Tiering constitute movement in the DTA/DTL due to movement in the fiscal position, changes in corporate income tax rate and the change in ineligible own funds. Furthermore, the movement in the Loss Absorbing Capacity of Deferred Taxes is taken into account.

Miscellaneous Movements consists mainly of insurance results, as well as other business developments. It also contains the regular development (run-off development and new business) of the SCR.

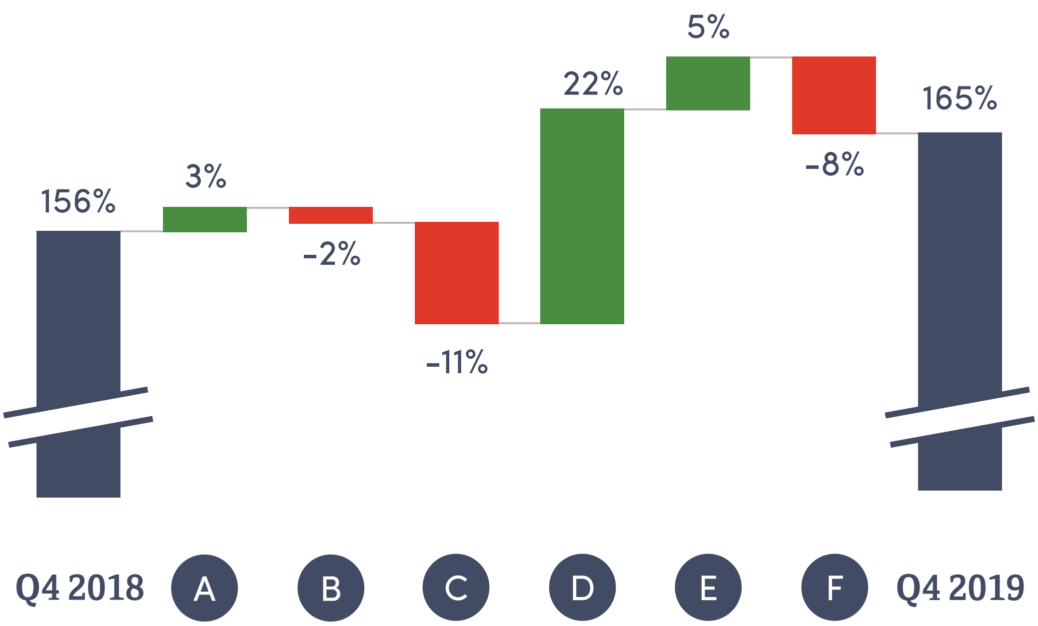


Figure 12: Analysis of Change Solvency Ratio VIVAT Schade

The Solvency II ratio of VIVAT Schade increased from 156% to 165% in 2019. The main drivers of this movement are:

A) Capital Generation (+/+3%)

Capital generation is mainly supported by business contribution (i.e. technical result including release of risk margin).

B) Capital Effects (-/-2%)

The decrease of the Solvency II ratio is explained by coupon payments on subordinated loans to VIVAT.

C) Market Impacts (-/-11%)

VIVAT Schade hedges the Solvency II ratio for interest rates movements: when the interest rates decrease, Own Funds increase to offset the impact of an increase in the SCR. Although the interest rate risk of the Solvency II ratio was within the Risk Appetite of VIVAT Schade, the Solvency II ratio was exposed to interest rate downward movement. As a result, the Solvency II ratio decreased by 8%-points.

VIVAT Schade has a more conservative asset portfolio compared to the VA reference portfolio. Furthermore, the spread duration of the asset portfolio excluding interest rate derivatives is shorter than the liabilities (mainly health). As a result, the impact of the VA on the liabilities valuation was only offset for a small part by an increase in spread assets value. The combined negative impact on the Solvency II ratio is about 1%-points.

Other market movements are mainly explained by equity movements and lower expected inflation rates.

D) One-time Items (+/+22%)

One-time items increased the Solvency II ratio and is mainly explained by the regular parameter update of both health (+17% Solvency II ratio) and property & casualty (P&C) business (+3% Solvency II ratio).

The annual parameter update impact for P&C is driven by:

- decreases in expected loss ratios in the claim model (supported by a mild winter in 2019, no storms in the spring and less catastrophes in fire in current claim year leading to improvements in fire and motor business);
- decreases of the initial expected loss ratios in the premium model (driven by several measures coming into effect the coming year) and
- releases in the IBNR of asbestos, partly offset by increases in claims provision.

The regular parameter update impact for health business is driven by lower observed disability rates especially for ages between 35 and 53 years. Furthermore, it is noticeable that if disability occurs this leads often to a lower partial disability percentage.

The alignment of the re-insurance cover with portfolio update of catastrophe risk supports the Solvency II ratio by +2%.

E) Tax and Tiering Effects (+/+5%)

The movement is mainly explained by movements in the Loss Absorbing Capacity of Deferred Taxes that originates from the Deferred Tax Liability (DTL) position. The DTL movement allocated to this category is explained by movements in the fiscal position and due to the by Senate approved changes to the corporate income tax rate.

On 17 December 2019, the Senate approved the increase of the rate in corporate income tax (“CIT Rate”). Concretely, it means that the rate goes to 21.7% instead of to 20.50% with effect from 2021.

F) Miscellaneous Movements or Other (-/-8%)

The main drivers for the decrease in Solvency II ratio in this category are:

- Increase in premium and reserve risk mainly due to development of the volume measure;
- Increase in non-life catastrophe risk mainly explained by a portfolio update;
- Increase in health risks mainly due to increase in disability risk.

7.4.7. Risk Profile

Solvency Capital Requirement

In € millions	2019	2018
Underwriting risk Non-Life	220	203
Underwriting risk Health	295	269
Market risk	38	42
Counterparty default risk	12	16
Diversification	-176	-168
Basic Solvency Capital Requirement	**389**	**362**
Operational risk	24	21
Loss-absorbing capacity of deferred taxes	-32	-22
Net Solvency Capital Requirement	**381**	**361**

The main risk profile changes of VIVAT Schade relate to changes in health underwriting risk (increase of similar to life health disability-morbidity risk for income protection due to lower interest rates and VA from 24 bps to 7 bps) and non-life underwriting risk (higher volumes for motor vehicle liability and fire and other property damage).

Changes in the item "Diversification" is the result of changes in the underlying risk modules. Not all risks will materialise at the same time and at their full magnitude resulting in diversification between different risk types.

Interest rate shocks can also have an impact on the loss-absorbing capacity of technical provisions (LAC TP). Article 83 of the Delegated Regulations requires to report this impact separately from the SCR Interest rate scenario.

When determining the Net Solvency Capital Requirement, the loss-absorbing capacity of deferred taxes may be set off against the Basic Solvency Capital Requirement. VIVAT Schade has examined whether, following a loss of the same size as the (pre-tax) SCR shock, future profits will be sufficient to be able to recover, partially or fully, the change in deferred tax assets caused by that loss. The Loss-Absorbing Capacity Deferred Taxes (LAC DT) in the SCR is prudently set at 0% for VIVAT and its legal entities, except for legal entities with a net Deferred Tax Liability (DTL). In these cases the Loss Absorbing Capacity of Deferred Taxes equals the net DTL-position. For VIVAT Schade a net-DTL applies. The LAC DT has been equated with this net-DTL.

The risk categories and the way in which they are managed, will be explained in more detail in the next paragraphs. To give more insight in the risks the company is exposed to, sensitivities are determined on best effort basis for different underwriting and market risks. For underwriting risks and spread risks the sensitivities shown are the estimated impact on own funds without recalculating the SCR after shock. For the other market risks the sensitivities shown are the estimated impact on own funds including the estimated impact on the SCR market risk after shock. The impact of interest rate sensitivity on SCR counterparty default risk has been taken into account.

7.5. Underwriting Risk

7.5.1. Risks - General

The underwriting risk is the risk that the own funds, earnings or solvency will be threatened as a result of the inability to make payments (either now or in the future) from premium and/or investment income owing to incorrect and/or incomplete assumptions (disability, claims, policy holders' behaviour, catastrophes, mortality, longevity, interest and expenses) used in the development of the product and the determination of its premium. The interest rate risk related to insurance products forms part of the market risk.

7.5.2. Non-life and Health

For the division of risks into sub-risks in the Non-life insurance portfolios, VIVAT Schade makes a distinction between Health underwriting risk and Non-Life underwriting risk.

The emphasis of this portfolio is on three segments: Fire, Motor and Disability. The insurance policies are mostly sold through authorised agents and distribution partners to retail and small and medium-sized enterprise customers. In addition, sales are also effected via direct channels. The disability insurance products in the portfolio include both individual coverage (for self-employed persons) and group coverage for employees. Only individual insurance contracts are currently sold.

The health underwriting risk module consists of the following three submodules:
- SCR for the Health Non-SLT underwriting risk
- SCR for the Health SLT risk
- SCR for the Health catastrophe risk

The Health catastrophe sub-module relates to all health insurance policies (i.e. both SLT and Non-SLT). In the following two subparagraphs the Non-Life underwriting risk and the health underwriting risks are assessed. In the third subparagraph the important role reinsurance has on the risk profile of VIVAT Schade is mentioned.

7.5.2.1. Disability

The Non-life insurer pays disability benefits which are covered in the individual and group portfolios.

Disability risk, recovery risk and lapse risk

In the case of disability insurance in Non-life, the main risks are the disability risk, recovery risk and lapse risk. The disability risk and recovery risk are risks that appear when a policyholder becomes unfit for work and receives benefits during the period this situation remains to exist. These risks relate to the amount, duration and timing of the payment of the insured cash flows. The disability risk is the risk that more policyholders than expected become disabled, or that policyholders become more severely disabled than expected. The recovery risk is the risk that fewer policyholders recover or that the policyholder recovers to a lesser extent than expected. The lapse risk is the risk associated with the consequences of cancelation by the policyholder before the envisioned end date of the policy. VIVAT Schade manages these risks by continuously promoting/offering reintegration pathways and by monitoring the inflow and outflow.

7.5.2.2. Property & Casualty

The risks of Property & Casualty (P&C) can be divided into risks related to claims, whether reported or not, that have already occurred (reserve risk), and risks related to future claims arising from current contracts (premium risk and catastrophe risk).

Reserve risk

Reserve risk is the risk that the accrued claims reserves are insufficient to settle all claims already incurred. VIVAT Schade manages this risk by means of monitoring best estimate trends in the claims development based on claim year on a regular basis. VIVAT Schade has assigned specialised departments for the handling and run-off of claims (including bodily injury claims). Experts in these departments handle claims on an item-by-item basis, make estimates of the size of the claim, and monitor the progress of claims settlement. The long-tailed claim areas at VIVAT Schade are disability claims, bodily injury claims and liability claims.

A liability adequacy test on the (IFRS) premium and claims reserves is performed once every quarter, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insights as to parameters are involved here.

For short-term policies (P&C), the Non-life underwriting parameters are evaluated every quarter, other parameters (like lapse) at least once a year. In these evaluations relevant information on portfolio developments is taken into account. The tariff structure of each product is regularly assessed by means of analysis. Monitoring takes place on the basis of the combined ratio of each branch and distribution channel.

Premium risk

Premium risk is the risk that premiums pertaining to future exposure are insufficient to meet all corresponding claims and costs. VIVAT Schade manages this risk by means of the product development, pricing and acceptance procedures as described in Section 7.3.3, Risk Management Process.

Catastrophe risk

Catastrophe risk is the risk of losses due to extreme or exceptional events. This includes both natural disasters and events caused by human actions. Geographically, the risk in the Non-life portfolio of VIVAT Schade is almost entirely concentrated in the Netherlands. There is concentration of underwriting risks in the Fire segment, where storm risk is an important factor. In addition, the concentration of risks can occur in apartment buildings, city blocks and office buildings. The concentration of risks also occurs in the group accident portfolio and the group disability schemes. VIVAT Schade reinsures catastrophe risks due to perils of nature (such as storms) or terrorism. Catastrophes resulting from acts of violence, nuclear incidents or floods are excluded under the standard policy conditions. Through participation in the nuclear insurance pool and the environmental insurance pool, specifically insured risks are shared with other insurers.

Co-Insurance

VIVAT Schadeverzekeringen NV is represented at the Rotterdam Insurance Exchange through its co-insurance unit. Risks in the Fire, Transport and Liability segments are underwritten. The focus is on the medium-sized and large business segments of the corporate insurance market.

7.5.2.3. Non-life Reinsurance

The use of reinsurance for Property and Casualty is playing an important role in managing the net underwriting risk profile of the Non-Life portfolio. The reinsurance programme consists of reinsurance contracts per line of business and makes no specific distinction between the various distribution channels. In addition to the regular protection of the portfolios, VIVAT Schade has concluded a catastrophe contract for covered natural perils (windstorm, hail) and the accumulation of losses due to one event (e.g. conflagration) within the property portfolio.

In general, the 2019 reinsurance programme was largely a continuation of the programme for 2018. From risk management and capital management considerations, the capacity of the catastrophe programme for 2019 and 2020 is aligned with the Risk Appetite of VIVAT Schade.

To become more in line with the expected developments on climate change, VIVAT Schade has purchased additional reinsurance cover through an Annual Aggregate Excess of Loss treaty for 2019. The Annual Aggregate Excess of Loss treaty is also in place for 2020 and protects on an annual basis the retention of the catastrophe reinsurance programme and regular property programme against an increase in frequency. Furthermore, the structure of the other reinsurance contracts remains unchanged for 2020.

Non-life insurance retention

In € thousands		2020	2019	2018
> **Coverage:**				
Property Catastrophe	per event	20,000	20,000	20,000
Property Fire	per risk	2,000	2,000	2,000
Property Annual Aggregate	per risk per risk/ event	5.000 10.000	5.000 10.000	
Motor Third Party Liability	per risk	2,500	2,500	2,500
General Third Party Liability	per risk	1,500	1,500	1,500
Personal Accident	per risk	1,000	1,000	1,000
Transport	per risk	1,000	1,000	1,000

The level of retention of the VIVAT Schade Non-life reinsurance contracts is in line with the size of the underwriting portfolios and the principles of the Reinsurance Policy. The reinsurance program consists of reinsurance contracts per line of business and makes no specific distinction between the various distribution channels.

Furthermore, a disability catastrophe cover has been incorporated for VIVAT Schade, which amounts from € 5 million up to € 30 million. Besides this catastrophe reinsurance cover, the individual disability risks remain reinsured through a surplus reinsurance with a retention of € 1.5 million sum at risk per insured

7.5.2.4. SCR Non-life

Non-Life premium and reserve risk

The capital requirement for the premium and reserve underwriting risk is dependent on the standard deviation and volume of the premiums and outstanding reserves.

Non-Life Lapse risk

The capital requirement for the lapse risk is equal to the loss in basic own funds as a consequence of an instantaneous discontinuance of 40% of the insurance policies for which discontinuance would result in an increase of the best estimate provision. Compared to premium & reserve risk and the catastrophe risk this risk is limited.

Non-Life catastrophe risk

In calculating the SCR for the Non-Life portfolio the following main drivers are identified: premium & reserve risk, cat risk and lapse risk. Due to risk diversification between the risks the total risk is less than the aggregated results and thus a diversification effect originates. In the following table the net SCR outcome for each risk is given.

SCR underwriting risk Non-Life

In € millions	2019	2018
Non-Life premium and reserve risk	201	185
Non-Life lapse risk	12	9
Non-Life catastrophe risk	52	48
Diversification	-45	-39
SCR Non-Life underwriting risk	**220**	**203**

The increase in premium and reserve risk is explained mainly by increase of premium volumes and claim reserves for motor vehicle liability and for fire and other property damage.

The own funds of P&C Insurance are sensitive to results in the Non-life claims, disability and loss ratio's. The table below shows the sensitivity for different shocks, without recalculating SCR and Risk Margin after shock.

	Solvency II ratio	
	2019	2018
Claims +10%	-12%	-13%
Disability +25% and Recovery -20%	-62%	-58%
Loss ratio current accident year +10%	-12%	-12%

The IFRS net result sensitivity for an increase of claims of 10% is equal to the impact on IFRS shareholder equity and increased from minus € 31 million to minus € 32 million.

7.5.2.5. SCR Health

The health underwriting risk relates to occupational disability policies and the casualty, sickness benefits and pet care portfolio. As the risk profiles of these insurance policies differ, a distinction is made in risks between:

- health insurance policies which provide for long-term benefits and thus resemble Life policies (Health SLT);
- health insurance policies which provide for short-term benefits and thus resemble Non-Life insurance (Health Non-SLT);
- risks relating to a mass accident, an accident concentration risk and a pandemic. This results in a third main risk module within Health and is the Health catastrophe risk (Health Cat).

SLT Mortality risk

This risk applies to the Health SLT active portfolio for which mortality rates may have a negative impact on the best estimate. For the Health SLT Inactive portfolio a shorter life will mean less future payments. The impact is marginal because the end date of the contract limits the mortality risk.

SLT Longevity risk

This risk only applies to Health SLT Inactive portfolio. The impact is marginal because the end date of the contract limits the longevity risk.

SLT Disability-morbidity risk

The capital requirement for morbidity risk (or incapacity for work risk) is equal to the loss in basic own funds that would result from the following combination of instantaneous permanent changes:

- an increase of 35% in the disability rates which are used in the calculation of technical provisions in the following 12 months;
- an increase of 25% in the disability rates which are used in the calculation of technical provisions in all months thereafter;
- where the rehabilitation rates used for the calculation of the technical provisions are lower than 50%, a decrease of 20% of those rates.
- where the disability and morbidity persistency rates used for the calculation of the technical provisions are equal or lower than 50%, an increase of 20% of those rate.

The shock on disability applies to both the first year as well as risk after the first year and has major impact on both the Health SLT active portfolio as well as the Health SLT inactive portfolio. The parameters in the shock are at the core of the product and given the duration of the controls the impact of this shock is very significant in the Non-Life portfolio.

SLT Lapse risk

The high exposure to lapse is mostly driven by the expected future profits contained in the disability portfolio. The lapse risk is based on a formula of different type of shocks. The impact is mainly seen at the health SLT active portfolio. There is a (marginal) impact on the inactive portfolio, because disabled policy holders can rehabilitate.

SLT Expense risk

The impact of the expense risk shock is relatively limited for the disability portfolio.

SLT Revision risk

The capital requirement for revision risk is equal to the loss in basic own funds that would result from an instantaneous permanent increase of 4% in the amount of annuity benefits only on annuity insurance and reinsurance obligations where the benefits payable under the underlying policies could increase as a result of changes in the legal environment or in the state of health of the insured person. Due to the fact that disability claims are paid out in the form of an annuity, there is a sensitivity to this shock. However, it is limited.

The health SLT underwriting risk applies to occupational disability policies. Virtually the same are the extent of shocks and the correlation assumptions between the shocks.

SCR Health SLT underwriting risk

In € millions	2019	2018
SLT Longevity risk	2	2
SLT Disability-morbidity risk	252	232
SLT Lapse risk	96	85
SLT Expense risk	23	18
SLT Revision risk	14	14
Diversification	-101	-91
SCR Health SLT underwriting risk	**286**	**260**

The increase in SLT health underwriting risk is caused by the increase of disability-morbidity for income protection due to lower interest rates and lower volatility adjustment (decreased from 24 bps to 7 bps), which is partly offset by improved underwriting parameter assumptions for disability. Mainly as a consequence of the improved underwriting parameter assumptions the SLT lapse risk increased slightly.

SCR Health underwriting risk

In € millions	2019	2018
SCR Health SLT underwriting risk	**286**	**260**
Non-SLT premium reserve risk	14	15
Non-SLT lapse risk	3	3
Diversification	-2	-3
SCR Health Non-SLT underwriting risk	**15**	**15**
Health catastrophe risk	3	3
Diversification	-9	-10
Total health underwriting risk	**295**	**268**

Non-SLT SCR

Due to the limited size of the portfolio, the Non-SLT underwriting risk is limited.

7.6. Market Risk

7.6.1. Risks - General

Market risks can potentially have a substantial financial impact on the value of the assets and liabilities of the insurance business. Unfavourable changes in market conditions have an impact on VIVAT Schade's earnings and/or own funds. To manage the mismatch between the assets and liabilities an ALM (Asset and Liability Management)-framework is in place. This framework is designed to bring about an investment strategy that optimises the relationship between risks and returns. The framework also ensures that VIVAT Schade's operations remain within the boundaries of its risk appetite.

The market risk is the risk arising from changes in the level or volatility of market prices of financial instruments which have an impact on the value of the assets and liabilities of VIVAT Schade. The ALM-framework aims to properly reflect the structural mismatch between assets and liabilities, with respect to the duration thereof.

The following eight sub-market risks have been defined: interest rate risk, equity risk, property risk, spread risk, basis risk, market risk concentrations, currency risk and volatility risk. VIVAT Schade can achieve its financial objectives by managing these risks adequately. It does this by reducing losses due to movements in the level and/or volatility of market prices of financial assets, liabilities and financial instruments.

Compared to Solvency II (standard model) market risk classification, VIVAT Schade recognises two additional market risks, namely volatility risk and basis risk.

7.6.2. SCR Market Risk

Exposure to market risk is measured under the Solvency II regime using adverse movements in financial variables. The main driver of market risk is the Solvency Capital Requirement for spread risk and to lesser extent the Solvency Capital Requirements for equity and interest rate risk.

The relevant types of market risk in Solvency II are displayed in the table below:

SCR Market risk

In € millions	2019	2018
Interest rate risk	30	16
Equity risk	4	7
Property risk	-	-
Spread risk	20	33
Concentration risk	-	-
Currency risk	-	-
Diversification	-16	-14
SCR market risk	**38**	**42**

Market risk is very limited compared to the Non-life and Health risk. The development of the SCR market risk is mainly due to normal market and portfolio developments.

7.6.2.1. Interest Rate Risk

Interest rate risk is a key component of VIVAT Schade's market risk profile. Interest rate risk arises when the interest rate sensitivities of the assets and liabilities are not equal and it is expressed as movements in the capital position if market rates change. Moreover, the expected fixed cash flows from technical provisions are matched with fixed-income investments as much as possible.

Nominal Insurance Liabilities by buckets

The table below presents nominal cash flows arising from insurance liabilities, net of reinsurance (liabilities) by maturity segment.

Cash flows from insurance business 2019

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	113,433	361,043	136,883	85,932	62,923	87,837	**848,051**
Total	**113,433**	**361,043**	**136,883**	**85,932**	**62,923**	**87,837**	**848,051**

Cash flows from insurance business 2018

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	169,897	378,849	157,245	105,273	74,035	76,952	**962,251**
Total	**169,897**	**378,849**	**157,245**	**105,273**	**74,035**	**76,952**	**962,251**

The cash flows from the underwriting provisions concern cash flows with a nominal guarantee. This does not include cash flows driven by the risk margin. The cash flows arising from the underwriting provisions are estimated on a best estimate basis. Assumptions are made of disability, surrender and costs. A change in assumptions can alter the view of the cash flows in the table. The cash flow projections do not include future profit-sharing.

The capital requirement for interest rate risk is determined on the basis of two scenarios in which the risk free yield curve is exposed to shocks affecting both assets and liabilities. The first scenario is 'interest rate up' and the second 'interest rate down'. The capital requirement for interest rate risk is defined by the scenario which has the most negative impact on basic own funds. The sign of the SCR interest rate shock (up or down) has to be determined based on the net SCR interest rate risk in accordance with SII legislation. However, the gross SCR interest rate risk determines the size of SCR interest rate risk.

The interest rate scenario used for the up and down Solvency II shocks are prescribed; being in effect a parallel up shock of 100 bps and a non-parallel down shock increasing from 0 to minus 64 bps, both without re-applying the UFR. For VIVAT Schade the up shock is leading.

SCR Interest rate risk

In € millions	2019	2018
SCR interest up shock	-30	-16
SCR interest down shock	-	-
SCR interest rate risk	**30**	**16**

The development of interest rate risk is mainly due to market and portfolio developments. Among others lower interest rates and lower volatility adjustment (decreased from 24 bps to 7 bps) contributed to the increase of interest rate risk.

VIVAT Schade uses a scenario based approach to control the sensitivity of solvency to market conditions, such as interest rates and spreads. The key solvency metric to express the risk is based on the regulatory solvency reported to the Dutch Central Bank (DNB). This method is chosen because VIVAT Schade has decided to use regulatory solvency as the principle factor in managing market risks.

From this perspective also the, over 2019 prescribed UFR of 3.90% by EIOPA introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year with a starting point of 4.20%, per 1 January 2020 the applicable UFR will decrease to 3.75%. This will have a negative impact on solvency.

The tables below show the sensitivity of the IFRS result, IFRS equity and Solvency II ratio to changes in interest rates as a result of a decrease or an increase by 0.5% of the interest rates (maintaining the UFR at 3.90%), decreases in the UFR of 0.15% and 0.5% and the impact of the VA on the Solvency II ratio.

Under IFRS the impact of different UFR is slightly different than under Solvency II due to tiering and the VA (not applicable under IFRS).

Upward effects on fixed income are processed in the revaluation reserve and do not impact earnings. A downward effect on fixed income does impact the net result in case of an impairment (for the accounting policies on impairments see Section 6.1.5 in the Annual Report for Accounting policies regarding the statement of financial position).

Sensitivity

	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
In € millions	2019	2018	2019	2018	2019	2018
Interest +50 bps	-9	-8	-25	-21	5%	4%
Interest -50 bps	10	10	26	22	-5%	-4%
UFR -15 bps	-	-	-	-	0%	0%
UFR -50 bps	-	-	-	-	0%	0%
Excluding VA	-	-	-	-	-2%	-6%

The IFRS sensitivities increased due to the increase of the market value of liabilities due to lower interest rates. VIVAT Schade manages its interest rate risk by stabilising the Solvency II ratio after an interest rate shock, taking the UFR of 3.90% into account. In 2019 the government bonds spreads and especially corporate bonds spread have narrowed in the reference portfolio of the VA, the applicable VA has decreased from 24 bps per year-end 2018 to 7 bps per year-end 2019. As a consequence the 'excluding VA' sensitivity decreased.

7.6.2.2. Equity Risk

The SCR for equity risk is equal to the loss in market value of the basic own funds in the event of a sudden shock to equities including a so-called symmetric adjustment. This adjustment corrects the equity shock for the difference between the current level of global equity prices and a long-term average and can vary between a minus 10% adjustment and a plus 10% adjustment.

SCR for equity risk consists of type 1 and type 2 equities. Type 1 equities are equities listed in regulated markets which are members of the EEA or OECD. Type 2 equities are equities listed in countries other than members of the EEA and/or OECD, non-listed equities, private equities, hedge funds, commodities and other alternative investments.

The SCR for equity risk is defined as the aggregation of the capital requirement for type 1 equities and the capital requirement for type 2 equities, allowing a correlation of 0.75 between types 1 and 2.

The table below shows the SCR for equity risk.

SCR Equity risk

In € millions	2019	2018
Type 1 equities	-	-
Type 2 equities	4	7
Diversification	-	-
Equity risk	**4**	**7**

The SCR for equity risk decreased due to the revaluation of the strategic participations.

The IFRS-based equities classification includes participations in funds that invest in other types of securities like money market funds and other (non-investment grade) fixed income funds. The ALM policy and the market sensitivities are adjusted to reflect the underlying risk under Solvency II and IFRS for a more economic approach (“look-through”), including the impact of the shock on the liabilities. VIVAT Schade periodically examines the impact of changes in the equity markets on the result and on own funds. Scenario analysis are used for this purpose.

The tables below show the results of this analysis at the reporting date net of taxation. Upward effects on equity are processed in the revaluation reserve and do not impact earnings. A downward effect on equity does impact the net result in case of an impairment (for the accounting policies on impairments see Section 6.1.5 in the Annual Report for Accounting policies regarding the statement of financial position).

Sensitivity

	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
In € millions	2019	2018	2019	2018	2019	2018
Equities +10%	0	0	2	2	1%	1%
Equities -10%	-1	0	-2	-2	-1%	-1%

7.6.2.3. Spread Risk

Spread risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of the credit spread above the risk-free interest rate term structure. The spread risk for the insurance business arises in the fixed-income investment portfolio, which includes securitisations, loans, corporate and government bonds that are sensitive to changes in credit risk surcharges. Increasing credit risk surcharges have a negative effect on the market value of underlying bonds.

The SCR for spread risk is determined by calculating the impact on the eligible own funds due to the volatility of credit spreads over the term structure of the risk-free rate. The required capital for spread risk is equal to the sum of the capital requirements for bonds, loans and structured products. The capital requirement takes into account the market value, the modified duration and the credit quality category.

SCR Spread risk

In € millions	2019	2018
Bonds and loans	20	33
Securitisation positions	–	–
Spread risk	**20**	**33**

Spread risk decreased due to divestments of USD and EU high yields as a tactical management action offset by new investments transactions in corporate bonds and in other new investments as part of the re-risking program to actively adding market risks to reach our strategic asset allocation.

VIVAT Schade defines *basis risk* as the risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position.

Credit risk surcharges are also a source of basis risk in the valuation of insurance liabilities. The basis risk relates to the risk of a mismatch between the interest rate used in the valuation of the liabilities and the interest rate used for the asset portfolio. This basis risk mainly emanates from the risk that movements in the interest rate on the EU government bonds held in portfolio will not be in line with movements in the swap rate.

For the disability portfolio, the interest rate matched to the duration of the portfolio is used when discounting insurance liabilities under IFRS. As duration is much lower than twenty years, no UFR is applied. A change in the interest rate has a direct impact on the value of the insurance liabilities. This leads to volatility in the available capital, as the interest rate used for the valuation of the investment portfolio differs from the relevant interest rate for the insurance liabilities.

Under the Solvency II regime the swap curve with a prescribed Ultimate Forward Rate (UFR) is used when discounting insurance liabilities, adjusted for credit risk (CRA) and a Volatility Adjustment (VA). The VA moves along with the credit spreads, but still substantial basis risk exists because the VA is based on a reference portfolio instead of VIVAT Schade's own asset portfolio, and also a 65% scaling factor is applied to deter-mine the VA. For managing market risks a number of combined scenarios is determined with (different) simultaneous shocks to risk categories. In this scenario based approach among others credit spreads, volatility (interest rate volatility and equity volatility) and best estimates for the VA are taken into account.

While interest rate risk regarding the Solvency II ratio is hedged, there remains significant volatility as the credit risk profile of VIVAT Schade differs from the profile implied by the Volatility Adjustment (VA).

Under Solvency II an increase of credit spreads also leads to an increase of the Volatility Adjustment impacting the value of the liabilities. VIVAT Schade assumes that an increase of all credit spreads of 50 bps leads to an increase of the VA of 23 bps, an increase of 50 bps on corporates to an increase of the VA of 13 bps and an increase of 50 bps on government bonds to an increase of the VA of 10 bps. The change of the VA has no impact on the value of the liabilities under IFRS.

Sensitivity

In € millions	IFRS net result		IFRS Shareholders' equity		Solvency II ratio[1]	
	2019	2018	2019	2018	2019	2018
Credit spreads Government Bonds +50 bps	0	0	-12	-8	-1%	0%
Credit spreads Corporates +50 bps	0	0	-4	-4	3%	2%
All Credit spreads +50 bps	0	0	-16	-12	2%	2%

[1] An increase of credit spreads also leads to an increase of VA, impacting the value of the liabilities.

The IFRS sensitivities increased due to the increase of the market value of liabilities due to lower interest rates.

7.6.2.4. Concentration Risk

Concentration risk is defined as all risk exposures associated with a potential loss that is significant to endanger the solvency or financial position of insurance and reinsurance undertakings.

A concentration risk charge is prescribed under Solvency II when the issuer exposure exceeds a certain percentage threshold of the asset base depending on the credit rating of the issuer and the type of investment. The SCR for concentration risk is calculated on the basis of single name exposure. This means that undertakings which belong to the same corporate Group are treated as a single name exposure.

VIVAT Schade still holds substantial investments in German and Dutch government bonds and supranational issuers which are excluded from (the Solvency II scope of) concentration risk.

7.6.2.5. Currency Risk

Currency risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of exchange rates. The currency risk of VIVAT Schade is very limited.

With respect to fixed-income investments, VIVAT Schade's policy is to permit only a very limited currency risk. Given this, the currency risk on fixed-income investments denominated in foreign currency is, in principle, hedged with currency swaps.

Currency risk also arises in relation to the equity investments of VIVAT Schade. This currency risk, after netting the currency risk in other non-fixed-income investments and liabilities, is structurally hedged using forward currency contracts or currency swaps if the net exposure without applying look-through principle exceeds € 10 million. A currency hedge bandwidth of 98-102% has been agreed for external mandates, within which operations may be carried out.

The SCR for currency risk is equal to the loss in the basic own funds that would result from an instantaneous change in the value of the foreign currency against the local currency. For each foreign currency this involves taking the maximum of the impact on the basic own funds of a 25% increase or 25% decrease in the value of the currency. The total SCR for currency risk is then obtained by the sum of the 'individual' currencies.

SCR Currency risk

In € millions	2019	2018
Currency risk VIVAT Schade	0	0

7.6.2.6. Diversification

Not all risks will materialise at the same time and at their full magnitude, resulting in diversification between different risk types. Solvency II prescribes a correlation matrix for the diversification effect in the SCR Market Risk module in order to aggregate the results of the types of market risks. This leads to a lower amount of total Market Risk compared to the sum of the individual market risk types. Solvency II furthermore prescribes that a downward SCR interest rate shock will be more correlated with an equity, spread and property shock compared to an upward interest rate shock.

At 31 December 2019, VIVAT Schade had a net balance sheet exposure to an upward interest rate shock.

7.7. Counterparty Default Risk

7.7.1. Risks - General

VIVAT Schade defines counterparty default risk as the risk of potential losses due to unexpected payment defaults of the counterparties and debtors of VIVAT Schade within the next twelve months.

The SCR Counterparty Default Risk covers risk-mitigating contracts such as reinsurance arrangements, derivatives, security lending and repos, and cash at bank, retail mortgages and receivables from intermediaries, as well as any other credit exposures not covered by the SCR Spread Risk.

For each counterparty, the overall credit default risk exposure of VIVAT Schade to that counterparty is measured, irrespective of the legal form of its contractual obligations. Its calculation also takes into account collateral or other security held by or for the account of VIVAT Schade and the risks associated therewith.

Fixed-income Investment Portfolio

The counterparty default risk within the fixed-income investment portfolios of VIVAT Schade is the risk that an issuer of a bond or a debtor of a private loan does no longer meet its obligations. The strategic allocation to the various investment grade categories within the fixed-income portfolio is determined in the context of ALM and laid down in mandates with the asset managers.

Derivatives Exposure

The counterparty default risk related to the market value of the derivatives held by VIVAT Schade with a counterparty is managed by means of a Credit Support Annex (CSA) agreement in accordance with standard industry practice. These agreements stipulate that the underlying value of the derivatives must be posted as collateral in liquid instruments, such as cash and government bonds, to cover the counterparty default risk.

Reinsurance

VIVAT Schade pursues an active policy with respect to the placement of reinsurance contracts, using a panel consisting of reinsurers with solid ratings. The general policy is that reinsurers should have a minimum rating of A-. However, given the long-term nature of the underlying business, the current casualty panel and the panel for disability reinsurance contracts consists of reinsurers with at least an A rating. Continuity and diversification within the panels of reinsurers is an important principle of VIVAT Schade's Reinsurance Policy.

7.7.2. SCR Counterparty Default Risk

The counterparty default risk module reflects the possible loss as a consequence of defaults and deterioration in the credit standing of counterparties over a 12-month period. The SCR for the counterparty default risk is determined by aggregating the capital requirements of type 1 and type 2 exposures.

Type 1 exposures are exposures that have low diversification effects and for which the counterparty is likely to have an external rating. Solvency II treats the following as type 1 exposures:

- risk-mitigation contracts, including reinsurance arrangements, special purpose vehicles (SPVs), insurance securitisations and derivatives;
- cash at bank;
- deposits with ceding undertakings;
- commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid;
- legally binding commitments which the insurer has provided or arranged and which may create payment obligations depending on the credit standing of a counterparty.

The capital requirement for counterparty default risk on type 1 exposures depends on the loss-given-default (LGD) and the probability of default (PD) of every single name exposure. The PD depends on the creditworthiness of the single name exposure.

Type 2 exposures consist of all exposures to which the capital requirement for spread risk is not applicable and which are not of type 1. In general, these are diversified exposures which do not have an external rating. Solvency II explicitly mentions the following exposures in the context of type 2:

- receivables from intermediaries;
- policyholder debtors;
- mortgage loans which meet a set of requirements.

The capital requirement for counterparty default risk on type 2 exposures as defined by EIOPA is equal to the sum of 90% of the LGD of receivables from intermediaries due for more than three months and 15% of the LGD of other type 2 exposures.

The SCR for counterparty default risk is determined by aggregating the capital requirements for type 1 and type 2 exposures with a correlation of 0.75 between types 1 and 2. This gives rise to diversification between type 1 and type 2 capital requirements because not all risks will materialise at the same time and at their full magnitude.

Counterparty default risk

In € millions	2019	2018
Type 1 exposures	9	13
Type 2 exposures	4	4
Diversification	-1	-1
SCR counterparty default risk	**12**	**16**

In 2019, the counterparty default risk type 1 decreased mainly due to decreases of losses-given default for exposures to BNP Paribas and (unrated) Vitodorum Reinsurance Co (Winterthur).

7.8. Liquidity Risk

7.8.1. Risks - General

Liquidity risk is defined as the risk that VIVAT Schade would have insufficient liquid assets to meet its financial liabilities in the short term, in a going concern situation or in times of a stress situation, or if obtaining the necessary liquidity would mean incurring unacceptable costs or losses.

The liquidity risk is monitored and managed both at consolidated level and at legal entity level.

7.8.2. Policy

The policy of VIVAT Schade is to have more liquidity available than it is required to hold based on internal risk management minimum levels. The objective of the internal risk management minimum levels is to ensure that VIVAT Schade is able to fulfill its obligations towards policyholders and all legal obligations.

The liquidity risk policy uses three sources of liquidity:
1. the cash position
2. the liquidity buffer
3. the liquidity contingency policy.

Cash position

The first source of liquidity concerns the cash position. This position is built up from the cash management process from investments (managed by ACTIAM) and cash management process from underwriting and operating activities. In the investments cash management process all cash flows from investments are managed by our Asset Manager (ACTIAM).

VIVAT Schade has taken into account that all obligations to policyholders must be respected and that these obligations will be paid throughout the underwriting and other operating cash management process. If at any time these obligations exceed the premium income additional cash will be transferred from the investment cash management process. Otherwise, when premiums exceed the payments in the operational cash management process, cash will be transferred to the investments cash management process, for the purpose of the investing excess cash (temporarily).

Liquidity buffer

The second source is the liquidity buffer. Together with the cash position, the liquidity buffer forms the overall liquidity position of the entity. The liquidity buffer is a good indicator for the overall liquidity position of VIVAT Schade and takes into account all available assets and the impact of prescribed shocks in a stress situation. Monitoring of this buffer accounts for an important part of the daily activities of VIVAT Schade.

Liquidity contingency policy

The last source of liquidity relates to a situation in which the normal liquidity and buffers turn out to be insufficient. In case of such a contingency, VIVAT Schade has implemented a Crisis Management Team (CMT) structure and a predefined set of potential management actions. The CMT must take timely action in rapidly deteriorating liquidity circumstances in order to avoid a bankruptcy that could occur in the worst case and/ or to settle all of the obligations under the insurance portfolio in an orderly manner.

7.8.3. Exposure

The required liquidity is determined based on absorbing shocks in a stress situation. The shocks are applied on prescribed risk categories. These risk categories are storm-/hail damage (Non-life insurance) and interest rate movements. In total, the liquidity buffer is sufficient to cover a severe liquidity stress scenario.

7.9. Non-financial Risk

7.9.1. Risks - General

The Non-Financial Risk department (NFR), as a second line Risk department, monitors and provides advice to management on compliance risk and operational risk. NFR has frequently direct contact with the EB and SB and is represented in the Risk and Audit Committee of the Supervisory Board, VRC,PC, ORC VIVAT Schade and in the ORC's and PMP's of the MTs (see Section 7.2.5 Risk Organisation) of VIVAT Schade. Within the PMP MTs, NFR Compliance advices on the development, evaluation and approval of products in accordance with laws, regulations, the AFM criteria and criteria related to treating customers fairly.

Compliance Risk

Compliance risk is the risk that an organisation is potentially able to suffer legal or regulatory sanctions, material financial loss, or loss of reputation as a result of non-compliance with applicable laws, regulations, rules, self-regulatory standards, codes and unwritten rules.

Non-compliance with integrity- and/or conduct related rules can potentially lead to regulatory action, financial loss and/or damage to the reputation of VIVAT Schade, for example fines, compensation, disciplinary action, imprisonment or exclusion proceedings.

Laws and regulations within scope pertain amongst others to those laws and regulations under which the supervisory authorities (Authority for the Financial Markets (AFM), Dutch Central bank (DNB), Authority for Consumers and Markets (ACM) and Data Protection Authority (AP) supervise aspects related to non-financial risks, such as the Dutch Financial Supervision Act (Wft), the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*), the Dutch Sanctions Act, as well as relevant European laws such as Solvency II, AIFMD and guidance from the Dutch Association of Insurers and other relevant bodies.

Operational Risk
Operational risk represents the risk of an economic loss, a negative reputational or supervisory impact resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include the risk of a material misstatement in VIVAT Schade's financial reporting and legal risks, but excludes strategic and business risks. Operational risk events can lead to adverse consequences beyond a pure financial loss. The assessment of possible reputational impacts following an operational event is an explicit part of the operational risk management process.

Operational risks are inherent in all of VIVAT Schade's insurance products, activities, processes and systems and the management of operational risk is a fundamental element of VIVAT Schade's risk management framework. VIVAT Schade recognises the following types of operational risk: Execution & Process Control Risk, IT risk, Cyber Risk, Internal Fraud risk, External Fraud risk, Damage to physical assets risk and Staff & Security risk. Model risk is considered to be a separate risk.

7.9.2. Exposure to Non-financial Risks

During 2019, as an important part of VIVAT Schade's risk framework, VIVAT Schade further improved the Integrated Control Framework consisting of process and management controls. Continuous attention on the quality of process and control design, testing of effectiveness of controls, monitoring compliancy, reporting and analysis tooling and process ownership enables the organisation to manage and monitor Compliance and Operational Risks in an efficient and effective manner. Based on the monitoring of all risk types, in this paragraph the main developments and risk events are described. VIVAT Schade's management is of the opinion that action plans and programs are in place to sufficiently address and mitigate these risks.

Compliance Risk
Due to the great complexity of the legislation with regard to Solvency II, IFRS, GDPR, Wwft, ILM, IDD, PRIIPS and Supply Chain Responsibility and changes to the pension legislation (Event review), legislation may not be implemented on time, resulting in VIVAT Schade not being compliant and potentially suffering reputational damage.

As an insurer, Sanctions- and Money laundering risks are limited but not non-existent. As a financial institution, VIVAT Schade has responsibilities to ensure detection and prevention. In VIVAT Schade's efforts to ensure compliance with applicable laws and regulations, instances of non-compliance can potentially occur.

Based on the investigation in 2018 performed by DNB, during 2019 VIVAT Schade executed a remediation program to address DNB findings on compliance with Sanction law 1977. In January 2020 VIVAT submitted an assessment report of the remediation activities by an independent auditor to DNB, and is awaiting DNB's response.

Structural remediation of the identified shortcomings is planned in the course of 2020, in the mean time taking short term (manual) mitigating actions to assure compliancy and prevent recurrence.

Risks (including reputational risk) are not fully excluded due to the combined effects of intermittent media exposure, political opinion, court judgements and in-action on the part of customers.

Due to the General Data Protection Regulation's challenging consequences on systems and processes, privacy risks should be taken into account. Special precautions have been taken in order to avoid data breaches when personal data is transferred or available to third parties and cleansing of data. On-going explicit (governance) focusses on privacy risks- and actions as well as local Privacy Champions safeguarding full attention on VIVAT Schade's compliance with the privacy regulation. VIVAT Schade has an appointed Data Protection Officer within the Compliance department.

Operational Risk

Execution and Process Control Risk

In 2019 execution and process risk was influenced by the number of change projects, system conversions and strategic initiatives within the organisation. Aiming at realisation of (short term) results, often making use of the same available capacity within the organisation puts pressure on quality. This is influencing risk management and risk taking at first line. Furthermore human factors, such as dealing with news on strategic re-orientation of VIVAT Schade will be different for each individual employee, but may potentially cause distraction from work and/or change of focus on personal priorities.

Further improving the quality of process design was an important topic which was addressed in 2019, resulting in good progress in order to further incorporate automated controls within the ICF framework and a new quality of design standards checklist was introduced. Strategic projects aiming at an increased level of (modular) process automation and straight through processing will contribute to mitigation of operational risks.

The committee structure within VIVAT, which includes VIVAT Schade, assures that new legislation, risk reports and findings, incidents, follow up on actions are addressed in Operational Risk and Compliance committees in the first line and at VIVAT board level.

In the event of operational incidents, they are reported transparently and addressed with root cause analysis and monitoring of structural improvements. Process Key Control testing and review on Management controls was properly in place at both first and second line, enhancing the control environment.

Information Technology Risk

The IT organisation implemented the Agile way of Working and Continuous Delivery to decrease time-to-market. In addition IT in 2019 has been successful in digitalisation and robotics business process automations with platforms like PEGA. VIVAT Schade is aware that these developments require high standards of change management and service delivery management within the IT department in order to maintain an IT landscape that is in control and is managing IT risks. In 2019 the IT-frameworks SAFe, IT4IT and Cobit5 were aligned within DTC to further improve efficiency. To become a data driven organisation by collecting, managing and using datais one of VIVAT Schade's strategic pillars. Data governance is in place to evaluate, direct and monitor data initiatives and the implementation of data policies and data related legislation, e.g. GDPR. VIVAT Schade's Data Strategy in 2019 has developed further to support VIVAT Schade in becoming a customer oriented service organisation. Steps were taken in 2019 to improve and standardise integration of processes, systems and data based on Data Management and Data Architecture.

Outsourcing / Cloud Computing

The approach of VIVAT Schade is to outsource activities in those areas in the customer value chain where an external service provider can provide added value. When specific activities for outsourcing have been identified a risk analysis is part of the preparation phase. In case of cloud services an additional risk analysis is performed to manage the risks particularly related to cloud. The results of the risks analysis are reflected in the contracts with the service providers. In 2019 monitoring of the performance of the service provider, whether the services delivered are according to agreed standards, has been improved. This has been established through the introduction of specific procedures as laid down in the procurement policy and improvements made in the integrated control framework. This increased the level of control over the risks related to outsourcing.

Cybercrime Risk

Fighting cybercrime is a key priority for a financial organisation like VIVAT Schade. Cybercrime risk increases over time and is becoming more widespread and professionalised, for example cyber attacks using ransomware. In 2019 no major incidents related to cybercrime occurred within VIVAT Schade. Cybercrime will remain high on the agenda of the VIVAT Schade management. To manage the increasing risk effectively, in 2019 a cybercrime strategy was drawn and aligned with Gartner and a phishing campaign was executed to promote awareness for the behavioral aspects of cybercrime. Also additional measures for threat and patch management were taken.

Staff and Security Risk

Anbang has reached a conditional agreement on the sale of VIVAT to Athora and thereafter a transfer of the shares in VIVAT Schadeverzekeringen to NN Schade. This led to an increased risk of a (high) number of (key) employees leaving the organisation and employees potentially being less committed and engaged. These risks were recognised by the Executive Board resulting in intensified monitoring by HR on the number of employees leaving per PL/FL and at department level, including monitoring on the time needed to fill vacancies. Furthermore an abbreviated employee survey, measuring employee commitment and engagement, and a human capital plan (following a comprehensive risk assessment) were executed.

Model Risk

In 2019, VIVAT Schade completed compact model risk overviews for several departments to increase insight in its model risk. Model risk was further reduced by follow-up of large numbers of second line findings. VIVAT Schade has improved several models. Within the Risk Model Landscape program important steps towards lower model risk have been taken by converting leading SCR- and ALM-tooling to new models and systems. Ongoing model validations on reporting, (asset) valuation and pricing models, following a risk based approach, further increased model insight and provides guidance towards lower model risk.

7.9.3. SCR Operational Risk

Operational risk is the risk of losses caused by weak or failing internal procedures, weaknesses in the action taken by personnel, weaknesses in systems or because of external events. This takes into account legal risks, but risks that are a consequence of strategic decisions or reputational risks are disregarded. The technical provision for own risk is part of the calculation of the SCR operational risk.

The basic capital requirement for operational risk is calculated by taking the maximum of (a) the capital requirement for operational risks on the basis of earned premiums and (b) the capital requirement for operational risks on the basis of technical provisions and adding 25% of the expenses incurred in respect of unit linked business.

SCR Operational risk

In € millions	2019	2018
VIVAT Schade	24	21

The development for operational risk can be mainly explained by regular portfolio development.

8. Company Financial Statements

8.1. Company Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2019	31 December 2018
> Assets			
Intangible assets		-	385
Subsidiaries	1	4,769	2,173
Investments		1,594,778	1,556,734
Derivatives		50,964	23,307
Reinsurance contracts		65,088	83,233
Other assets		62,480	59,251
Cash and cash equivalents		40,737	46,749
Total assets		**1,818,816**	**1,771,832**
> Equity and liabilities			
Issued share capital[2]		10,898	10,898
Share premium reserve		464,437	464,437
Fair value reserve		45,941	48,358
Retained earnings		-122,445	-187,118
Shareholders' equity	2	**398,831**	**336,575**
Subordinated debt		150,000	150,000
Insurance liabilities		1,082,734	1,134,709
Provision for employee benefits		28,286	24,552
Derivatives		-	5,945
Deferred tax		12,358	3,076
Amounts due to banks		52,226	17,049
Corporate income tax		13,417	4,886
Other liabilities		80,964	95,040
Total equity and liabilities		**1,818,816**	**1,771,832**

1 The references next to the balance sheet items relate to the notes to the company statement of financial position in Section 9.2.
2 The authorised share capital amounts to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares with a total amount of € 11,350,000 are issued of which an amount of € 10,898,420.62 is paid up.

8.2. Company Statement of Profit or Loss

In € thousands	Notes[1]	2019	2018
> Income			
Premium income		789,353	723,422
Reinsurance premiums		46,384	44,322
Net premium income		**742,969**	**679,100**
Fee and commission income		7	3
Fee and commission expense		–	–
Net fee and commission income		**7**	**3**
Share in result of subsidiaries and associates		-3,404	410
Investment income		18,047	21,395
Result on derivatives		31,693	6,650
Total income		**789,312**	**707,558**
> Expenses			
Technical claims and benefits		417,160	422,534
Acquisition costs for insurance activities		172,318	161,010
Staff costs		74,833	74,463
Depreciation and amortisation of non-current assets		385	658
Other operating expenses		23,173	27,296
Impairment losses (reversals)		3,229	-317
Other interest expenses		10,521	10,669
Total expenses		**701,619**	**696,313**
Result before tax		**87,693**	**11,245**
Tax expense		22,135	1,608
Net result continued operations for the period		**65,558**	**9,637**

> Attributable to:			
- Shareholder		65,558	9,637
Net result continued operations for the period		**65,558**	**9,637**

[1] The references next to the income statement items relate to the notes to the company statement of profit or loss in Section 9.2.

8.3. Company Statement of Total Comprehensive Income

Company Statement of Other Comprehensive Income

In € thousands	2019	2018
> OCI not to be reclassified subsequently to profit or loss		
Changes in valuation of defined benefit pension plan	-1,112	2,231
Change in other reserves	-	-27
Income tax relating to items that never be reclassified	278	-558
Tax rate reduction adjustment relating to items that never be reclassified	-51	60
Net OCI never reclassified to profit or loss	**-885**	**1,706**
> OCI to be reclassified subsequently to profit or loss		
Unrealised revaluations investments available for sale	-2,503	-25,312
Impairments and reversals fair value reserve	-8	-44
Realised gains and losses fair value reserve transferred to profit or loss	2,814	-8,873
Income tax relating to items that may be reclassified	-2,820	6,015
Tax rate reduction adjustment relating to items that may be reclassified	100	1,193
Net OCI to be reclassified to profit or loss subsequently	-2,417	-27,021
Other comprehensive income (net of tax)	**-3,302**	**-25,315**

Company Statement of Total Comprehensive Income

In € thousands	2019	2018
Net result for the period	65,558	9,637
Other comprehensive income (net of tax)	-3,302	-25,315
Total comprehensive income (net of tax)	**62,256**	**-15,678**
> Attributable to:		
- Shareholders	62,256	-15,678

8.4. Company Statement of Changes in Equity

Company Statement of Changes in Equity 2019

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Retained earnings	Sum of reserves	Total shareholders' equity
Balance as at 1 January 2019	**10,898**	**464,437**	**48,358**	**-187,118**	**325,677**	**336,575**
Other comprehensive income	-	-	-2,417	-885	**-3,302**	**-3,302**
Net result 2019	-	-	-	65,558	**65,558**	**65,558**
Total comprehensive income 2019	**-**	**-**	**-2,417**	**64,673**	**62,256**	**62,256**
Total changes in equity 2019	**-**	**-**	**-2,417**	**64,673**	**62,256**	**62,256**
Balance as at 31 December 2019	**10,898**	**464,437**	**45,941**	**-122,445**	**387,933**	**398,831**

[1] The authorised share capital amounts to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares with a total amount of € 11,350,000 are issued of which an amount of € 10,898,420.62 is paid up.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2018, no dividends for 2019.

Company Statement of Changes in Equity 2018

In € thousands	Issued share capital	Share premium	Fair value reserve	Retained earnings	Sum of reserves	Total shareholders' equity
Balance as at 1 January 2018	**10,898**	**464,437**	**75,379**	**-198,461**	**341,355**	**352,253**
Other comprehensive income	-	-	-27,021	1,706	**-25,315**	**-25,315**
Net result 2018	-	-	-	9,637	**9,637**	**9,637**
Total comprehensive income 2018	**-**	**-**	**-27,021**	**11,343**	**-15,678**	**-15,678**
Total changes in equity 2018	**-**	**-**	**-27,021**	**11,343**	**-15,678**	**-15,678**
Balance as at 31 December 2018	**10,898**	**464,437**	**48,358**	**-187,118**	**325,677**	**336,575**

Statement of Changes in Revaluation Reserves and Other Legal Reserves

In € thousands	2019	2018
Balance as at 1 January	**48,358**	**75,379**
Unrealised revaluations	-2,503	-25,312
Impairments and reversals	-8	-44
Realised gains and losses transferred to profit or loss	2,814	-8,873
Income tax	-2,820	6,015
Tax rate reduction adjustment	100	1,193
Total changes in equity	**-2,417**	**-27,021**
Balance as at 31 December	**45,941**	**48,358**

8.5. Company Cash Flow Statement

In € thousands	2019	2018[1]
> Cash flow from operating activities		
Operating profit before tax	87,694	11,245
> Adjustments for non-cash items included in profit before tax:		
Depreciation and amortisation of non-current assets	385	658
Amortisation of investments	18,837	17,335
Change in provision for employee benefits	-249	-
Impairment charges / (reversals)	3,229	-317
Unrealised results on investments through profit or loss	-30,210	-6,650
Retained share in the result of associates	3,404	3,370
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	35,177	1,382
Change in investments	1,591	8,736
Change in derivatives	-2,460	-5
Change in other assets	-3,125	30,124
Change in insurance liabilities	-33,830	-17,229
Changes in other liabilities	-21,355	-2,514
Net cash flow from operating activities	**59,088**	**46,135**
> Cash flow from investment activities		
Proceeds from sale of assets held for sale	-	7,335
Capital injection subsidiary	-6,000	-
Sale and redemption of investments and derivatives	1,642,851	1,188,382
Purchase of investments and derivatives	-1,701,951	-1,238,230
Net cash flow from investment activities	**-65,100**	**-42,513**
> Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**-6,012**	**3,622**
Cash and cash equivalents 1 January	46,749	43,127
Cash and cash equivalents as at 31 December	**40,737**	**46,749**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	32,014	33,665
Dividends received	2,547	1,157
Interest paid	10,411	10,567

[1] Comparitive figures (change in investments, change in derivatives, change in other assets, change in insurance liabilities, change in other liabilities) have been reclassified for comparison purposes. This change in classification does not affect previously reported cash flow from operating activities.

9. Notes to the Company Financial Statements

9.1. Accounting Policies to the Company Financial Statements

Basis of Preparation

Pursuant to the option offered in article 2:362(8) of the Dutch Civil Code, VIVAT Schade prepares its company financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. These are the same accounting policies as those used for the consolidated financial statements (refer to Section 6.1 Principles for the preparation of the consolidated financial statements).

Applicable Accounting Policies

Where applicable, for items not described in this section, the accounting policies applied for the company financial statements are the same as those described in the section 6.1 Accounting policies for the consolidated financial statement. For the items not separately disclosed in the notes to the company financial statement, reference is made to the notes in the section 6.3 Notes to the consolidated financial statements.

Subsidiaries

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

Movements in the carrying amounts of subsidiaries due to changes in their fair value and profit-sharing reserves are recognised in shareholders' equity.

Movements in the carrying amounts arising from the share of result of subsidiaries are recognised in accordance with the accounting policies of VIVAT Schade in profit or loss. The distributable reserves of subsidiaries are recognised in retained earnings.

Receivables from and Debts to Group Companies

Loans (including subordinated loans) to and from group companies are measured at amortised cost.

9.2. Notes to the Company Financial Statements

1. Subsidiaries

Statement of Changes in Subsidiaries

In € thousands	2019	2018
Balance as at 1 January	2,173	5,543
Capital injection	6,000	-
Result	-3,404	-3,370
Balance as at 31 December	**4,769**	**2,173**

At year-end 2019, VIVAT Schade wholly owned the following group entities:
- Volmachtkantoor Nederland BV
- Bemiddelingskantoor Nederland BV
- Nieuw Rotterdam Knight Schippers BV
- W.Haagman & Co BV

Capital injection with the amount of € 6 million relates to a payment of share premium in respect of the Shares Volmachtkantoor Nederland BV (€ 3.9 million) and Shares Bemiddelingskantoor Nederland BV (€ 2.1 million) without any shares in Volmachtkantoor Nederland BV and Bemiddelingskantoor Nederland BV being issued.

2. Equity

Breakdown of Equity

In € thousands	2019	2018
Equity attributable to the shareholder	398,831	336,575
Total	**398,831**	**336,575**

The authorised share capital amounts to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares with a total amount of € 11,350,000 are issued of which an amount of € 10,898,420.62 is paid up.

3. Guarantees and Commitments

For details on off-balance sheet commitments, see Note 13 Guarantees and commitments of the consolidated financial statements.

4. Related Parties

Intra-group Balances and Transactions between VIVAT Schadeverzekeringen NV and Subsidiaries

In € thousands	2019	2018
> Positions		
Receivables	825	-
Other liabilities	1,268	1,153
> Transactions		
Capital issue to subsidiaries	6,000	-
Movements receivables	825	-
Movements other liabilities	115	-
Acquisition costs for insurance activities	18,452	17,193

For details on the intra-group balances and transactions between VIVAT Schade, VIVAT, Anbang and Affiliates, see Note14 Related parties of the consolidated financial statements.

5. Audit Fees

Pursuant to Section 382a(3) of Book 2 of the Dutch Civil Code, the company has availed itself of the exemption from disclosing the audit fees in the annual report. These disclosures have been included in the annual report 2019 of VIVAT NV.

6. Result Appropriation

For the provisions of the articles of association governing the appropriation of profit or loss reference is made to Section Other information.

The Executive Board proposes to the General Meeting of Shareholders to add the positive result for 2019 of € 65,558 thousand to the retained earnings of VIVAT Schadeverzekeringen NV.

In accordance with the resolutions of the General Meeting of Shareholders of VIVAT Schadeverzekeringen NV held on 6 May 2019 the total positive result for 2018 of € 9,637 thousand has been added to the retained earnings of VIVAT Schadeverzekeringen NV.

Amstelveen, the Netherlands, 30 March 2020

The Supervisory Board

M.W. Dijkshoorn (Chairman)

M.R. van Dongen

M. He

K.C.K. Shum

P.P.J.L.M. Lefèvre

The Executive Board

L. Tang

X.W. Wu

Y. Cao

W.M.A. de Ruiter-Lörx

J.C.A. Potjes

Other Information

1. Provisions in Articles of Association Governing the Appropriation of Profit or Loss

Article 35 Profit and Loss; general

1. The profits will be at the free disposal of the general meeting.

2. The company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves to be maintained pursuant to the law.

3. Profits will be only distributed after adoption of the annual accounts showing that this is justified.

Article 36 Profit and Loss; Distributions

1. Dividends will be payable within fourteen days following their adoption, unless the general meeting determines another date on the proposal of the managing board.

2. Dividends which have not been collected within five years after they became due and payable will revert to the company.

3. The general meeting may resolve that dividends willbe distributed in whole or in part in a form other than cash.

4. Interim distributions will be made if the general meeting so determines on the proposal of the managing board, including an interim distribution of reserves, subject to due observance of the provisions of section 2:105 subsection 4 Civil Code.

5. A deficit may only be offset against the reserves prescribed by law, to the extent permitted by law or by these articles of association.

Independent auditor’s report

To: the shareholder and supervisory board of VIVAT Schadeverzekeringen N.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 of VIVAT Schadeverzekeringen N.V. (VIVAT Schade or the Company), based in Amstelveen.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of VIVAT Schadeverzekeringen N.V. as at 31 December 2019 and of its result and its cash flows for 2019 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.

The financial statements comprise:

- The consolidated and company statement of financial position as at 31 December 2019
- The following statements for 2019: the consolidated and company income statement, the consolidated and company statements of total comprehensive income, changes in equity and cash flows
- 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 financial statements” section of our report.

We are independent of VIVAT Schadeverzekeringen N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	EUR 6.5 million (2018: EUR 6 million)
Benchmark applied	2% of VIVAT Schade's shareholder's equity (2018: 2% of VIVAT Schade's shareholder's equity)
Explanation	VIVAT Schade's equity and solvency, and the ability to meet policyholder liabilities, are key indicators for the users of its financial statements. As such, we have based materiality on VIVAT Schade's shareholder's equity

We have also taken misstatements into account and possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 0.3 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view should be reported on qualitative grounds.

Scope of the group audit

VIVAT Schade is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of VIVAT Schade.

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 reporting units based on their size and/or the risk profile. We included 1 of the 5 entities in the audit scope for consolidation purposes, resulting in a coverage of 100% of total assets, 100% of shareholder's equity and 100% of profit before tax.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Compared to previous year, we have added a key audit matter "Fair value measurement of investments and related disclosures" because of planned and (partly) initiated re-risking activities.

Fair value measurement of investments and related disclosures	
Risk	VIVAT Schade invests in various asset types and continued the re-risking of the investment portfolio in 2019. 97% of assets are carried at fair value in the balance sheet. Of the total assets, 6% is related to investments for which no published prices in active markets are available. Fair value measurement can be subjective, and more so for areas of the market reliant on model based valuation or with weak liquidity. Valuation techniques for asset backed securities, bonds and private equity investments involve setting various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Associated disclosures are complex and dependent on high quality data. Specific areas of audit focus include the valuation of Level 3 assets where valuation techniques are applied in which significant unobservable inputs are used.
Our audit approach	We assessed and tested the design and operating effectiveness of the controls over valuation, independent price verification and model validation and approval. We performed additional substantive procedures, supported by our valuation specialists where necessary. This included, where relevant, comparison of judgments made to current and emerging market practice and re-performance of valuations on a sample basis. We also assessed the impact of other sources of fair value information including gains or losses on disposal and fair value information based on the Company's own purchase transactions. Finally, we assessed the related disclosures including the disclosure of valuation sensitivity and fair value hierarchy in note 28.
Key observations	Based on our procedures performed, we consider the fair value of financial instruments to be within a reasonable range. The fair value disclosures of investments meet the requirements of IFRS-EU.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Risk	VIVAT Schade has insurance contract liabilities of €1.1 billion representing 76% of the Company's total liabilities. The measurement of insurance contract liabilities involves judgment over uncertain future outcomes, mainly the ultimate total settlement value of insurance liabilities. Various economic and non-economic assumptions are being used to estimate these liabilities. The valuation of the insurance liabilities requires the application of significant judgment in the setting of: ▸ (Initial) Expected loss ratio for the calculation of the provision for claims incurred but not reported (IBNR) and the unexpired risk reserve (URR) ▸ Assumptions for morbidity, recovery and lapse rates for disability covers The Company's IFRS liability adequacy test (LAT) is performed in order to confirm that insurance contract liabilities are adequate in the context of expected future cash outflows. As at 31 December 2019, the LAT of VIVAT Schade shows a surplus.

Fair value measurement of investments and related disclosures	
Our audit approach	We involved our actuarial specialists to assist us in performing our audit procedures in this area, which included among others: ▸ Consideration of the appropriateness of the (initial) expected loss ratio used in the valuation of the IBNR and URR insurance liabilities by assessing the Company’s past claim developments, the applied (initial) expected loss ratio assumptions and trends in the industry ▸ Consideration of the appropriateness of the morbidity, recovery and lapse rate assumptions for disability covers by reference to company data on historical experience and expectations of future developments of claims Other key audit procedures included assessing the Company’s methodology for calculating the insurance contract liabilities and an assessment of internal controls in this respect, including the analysis of the movements in insurance contract liabilities during the year. We assessed whether the movements are in line with the changes in assumptions adopted by the Company, our understanding of developments in the business and our expectations derived from market experience. We tested the internal controls related to base data and performed additional substantive procedures on claims in this area. Further, we considered the validity of the Company’s IFRS LAT results which is a key test performed in order to ensure that insurance contract liabilities are adequate in the context of expected future cash flows based on best estimate assumptions. Our work on the LAT includes assessing the reasonableness of the projected cash flows and challenging the assumptions adopted including (initial) expected loss ratio for P&C covers and morbidity, recovery and lapse rates for disability covers, based on the Company’s experience data and expectations of future developments of claims. The assessment included an evaluation of the impact of the updated parameters applied in the Disability cash flow model. Furthermore, we assessed the reasonableness of the changes in estimates applied in the calculation of the insurance contract liabilities including the change in estimate applied in the determination of the expected loss rates and the changes in estimates applied in the calculation of the (IFRS and Solvency II) best estimate provision including the change in estimate in relation to the updated parameters applied in the Disability cash flow model. We have verified the financial impact and disclosure of these changes. We considered whether VIVAT Schade’s disclosures in note 8 to the financial statements in relation to insurance contract liabilities and liability adequacy test result are compliant with EU-IFRS.
Key observations	We consider the estimates used to be within a reasonable range. The disclosures of insurance contract liabilities and LAT results meet the requirements of EU-IFRS.

Reliability and continuity of the information technology and systems	
Risk	VIVAT Schade is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. VIVAT Schade continues to invest in its IT systems and IT infrastructure and processes to meet clients' needs and business requirements. VIVAT Schade is continuously improving the efficiency and effectiveness of its IT systems and IT infrastructure and the reliability and continuity of the electronic data processing, including its defence against cyber-attacks.
Our audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the annual accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting, review of ISAE 3402 reports for IT systems hosted by third parties, as well as additional (substantive) procedures if deemed necessary. In response to the increased frequency and severity of cyber incidents and heightened concerns from regulators and other stakeholders about cybersecurity attacks and breaches, we have evaluated cybersecurity risks as part of our annual audit procedures. Our main focus during this audit was to gain an understanding of the cybersecurity risks at VIVAT Schade and the actions taken by VIVAT Schade to address these risks.
Key observations	Based on the combination of the tests of controls and IT substantive procedures, we obtained sufficient appropriate audit evidence for the purposes of our audit. Based on our procedures performed with regards to cybersecurity, no significant risks have been identified impacting our financial statement audit. Our audit was not aimed at making a statement about the cybersecurity of VIVAT Schade.

Emphasis of matter relating to uncertainty about Corona

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The financial statements and our auditor's report thereon are snapshots. The situation changes on a daily basis giving rise to inherent uncertainty.

VIVAT Schade is confronted with this uncertainty as well, that is disclosed in the sections 3.1 Trends and Developments, 3.6 Risk and Capital Management of the Board report and note 15 ''Events after the reporting date'' to the financial statements. We draw attention to these disclosures.

Our opinion is not modified in respect of this matter.

Report on other information included in the annual report

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

- Board report including Key Figures, Message from the executive board of VIVAT Schadeverzekeringen N.V., Organisation, Strategy and Developments and Corporate Governance
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Additional information

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

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements 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 substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other 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 supervisory board as auditor of VIVAT Schadeverzekeringen N.V. on 29 October 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

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 audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements of VIVAT Schade, we provided the following services to VIVAT Schade:

- We issued auditor's reports on selected regulatory reporting templates of VIVAT Schade to the Dutch Central Bank (DNB)
- We issued assurance reports on statements of premium income and number of motor vehicles insured
- We issued reports of factual findings and assurance reports on statements prepared by VIVAT Schade to meet contractual obligations with its customers

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also 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 group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 30 March 2020

Ernst & Young Accountants LLP

signed by A. Snaak

Additional information

1. Principles underlying/non-underlying result

> Definition and usefulness of Net Underlying Result (NUR):

Net result IFRS of VIVAT Schade has a high volatility as result of the valuation of all assets and liabilities on a fair value basis. In the NUR major fair value movements as result of market developments and parameter changes have been eliminated from IFRS-result. VIVAT Schade believes that the NUR provides useful information to stakeholders and investors which results in greater comparability of results with peers and that it enhances their understanding on the financial impact of management decisions (e.g. re-risking of investments, additional cost-savings). The NUR should be viewed as complementary to, and not as a substitute for net result IFRS.

> Limitations of the usefulness Net Underlying Result:

Given the complexity in valuation of derivatives it is not possible to fully eliminate all fair value movements from NUR. This could lead to distortion in comparability of figures between different periods. In addition to the impact of additional investment income from derivatives the increase of the NUR was also supported by ongoing re-risking activities, lower costs and lower interest expenses.