Annual Report
VIVAT Schadeverzekeringen NV 2018

Reaal

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VIVAT

Table of Content

1. Key Figures

In € thousands	2018	2017[1]	2016	2015	2014
> Ratios					
Regulatory solvency II VIVAT Schadeverzekeringen	156%[2]	162%	152%	142%[3]	-
Result					
Net premium income	679,100	644,258	621,100	640,433	713,243
Investment income	21,396	15,847	19,008	22,817	38,047
Total income	712,753	664,903	658,959	664,813	752,154
Total expenses	702,621	659,388	721,839	770,259	895,313
Result before tax	**10,132**	**5,515**	**-62,880**	**-105,446**	**-143,159**
Tax expense	495	827	-15,761	-26,528	-35,956
Net result	**9,637**	**4,688**	**-47,119**[4]	**-78,918**	**-107,203**
Statement of financial position					
Total assets	**1,773,909**	**1,814,398**	**1,914,854**	**1,891,813**	**1,739,021**
Investments	1,556,734	1,567,226	1,635,537	1,614,618	1,430,732
Total equity	**336,575**	**352,253**	**358,000**	**404,839**	**289,161**
Insurance liabilities	1,134,709	1,158,670	1,237,301	1,247,638	1,289,982

1 Because of the merger between VIVAT Schade and Fnidsen Beheer BV the 2017 figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.
2 Regulatory Solvency II ratio is not final until filed with the regulator.
3 Regulatory Solvency II ratio is based on Day 1 figures.
4 The result 2016, as reported in the annual report 2017, amounting to € -47,119 thousand, has been adjusted compared to the result reported in the annual report 2016 (€ -56,654 thousand). For further explanation see paragraph 6.1.2 in the annual report 2017.

VIVAT Schadeverzekeringen 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), Message from the Executive Board (chapter 2), Strategy and Developments (chapter 3), the Executive Board (chapter 4.1), the Supervisory Board (chapter 4.2) and Remuneration (chapter 4.4).

2. Message from the Executive Board of VIVAT Schadeverzekeringen NV

Dear stakeholders,

As an insurance company, VIVAT Schade has a great responsibility. It is our role to protect our clients' belongings. Therefore, everything we do is in some way related to our customers – from our sustainable investments and innovating our internal organisation to collaborating with start-ups and developing new easy to use products. It has made us redefine our mission: *VIVAT makes your financial choices easy*.

To live up to this mission, we need to have a solid modus operandi and I am glad to report that VIVAT Schade has made strong progress. In 2018, it grew its portfolio by approximately 6% in a flat and competitive market. We were able to lower our cost base again.

Innovation continues to be key in VIVAT Schade's strategy. We apply smart innovative technologies and methods in combination with rich and varied data sources to enable cost effective operations, levels of personalisation and new business models that satisfy changing customer needs. A good example was the launch of the location based travel insurance by our on demand platform Vigi. We also made good progress in the field of digitalisation and we deployed initiatives to improve the Straight Through Processing (STP) ratio. Furthermore, several initiatives to improve data management were rolled-out and VIVAT Schade successfully developed new data science initiatives.

We also have tightened and redefined our Corporate Social Responsibility (CSR) policy in 2018. As an insurer, VIVAT Schade makes important choices every day that have far-reaching influence on the world of tomorrow. In fact, with the assets we manage on behalf of our clients, we can and want to exercise our influence on that world, to safeguard it for future generations. Therefore, based on a survey among our stakeholders and the global sustainability agenda of the United Nations – the Sustainable Development Goals (SDGs) – we have formulated the following three priorities to guide our actions: 1) we have a sustainable customer relationship, 2) we invest responsibly, and 3) we run our business efficiently and sustainably.

Our efforts in the field of sustainability were once again recognised by the Fair Insurance Guide according to our consistently high rankings in different themes in recent surveys. In line with our sustainability policy, we have ended the variable remuneration in our new Collective Labour Agreement (CLA) which became effective as of 1 July 2018.

The strategic review regarding the ownership of VIVAT by Anbang is in progress. Once a final outcome of this review has been concluded by the shareholder, this will be communicated.

VIVAT Schade remains committed to executing its strategy, focussing on innovation, further reducing the cost base and optimising the investment portfolio. The efforts of our committed employees will help to continuously serve the needs of our customers and stakeholders.

Amstelveen, the Netherlands, 8 April 2019

On behalf of the Executive Board of VIVAT Schadeverzekeringen NV, Ron van Oijen, Chief Executive Officer

Insuring is probably not people's favorite activity. At Reaal they understand that. Yet it is nice if things are well organised. Reaal is happy to help. They do so for over hundred years and for approximately 1.8 million customers.

Reaal

3. Strategy and Developments

3.1. About VIVAT Schade

VIVAT Schadeverzekeringen NV (hereafter "VIVAT Schade") 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 2018, VIVAT Schade generated € 723 million in gross written premiums (GWP). VIVAT Schade's main offices are located in Amstelveen and Alkmaar, smaller offices are situated in Utrecht and Rotterdam. The office in Assen will be closed in May 2019.

Structure

VIVAT Schadeverzekeringen NV is a full 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.

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

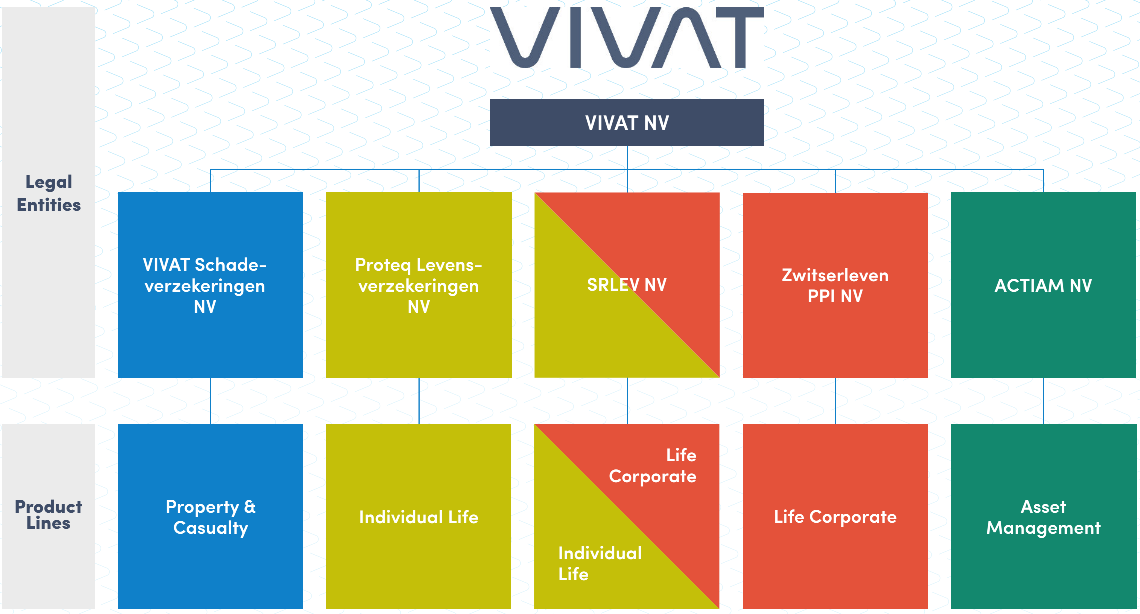


Figure 1: Structure VIVAT

Anbang Group Holdings Co. Limited, an indirect subsidiary of Anbang Insurance Group Co., Ltd., is the sole shareholder of VIVAT NV and therefore VIVAT Schadeverzekeringen NV. Since February 2018 the China Insurance Regulatory Commission (CIRC) has temporarily taken over management of Anbang. During this interim period, the far majority of the Anbang shares are temporarily held by the Chinese Insurance Security Fund (CISF), a non-governmental industrial fund.

3.2. VIVAT Schade's Strategy

To generate attractive returns and to achieve this mission, VIVAT Schade has set itself three main goals:

- Customer advocacy
- Profitable growth
- Cost discipline

These goals are interconnected: only when VIVAT Schade stays relevant to its customers we can expect to grow, and for this growth to be profitable in the highly competitive markets in which VIVAT Schade operates, we must continue to be vigilant on cost. Keeping our cost base under control allows us to offer competitive pricing to our customers. And only by growing we can sustain the continuous investments needed to respond to changing customer needs. Meeting our goals will result in a healthy and sustainable level of capital generation and an attractive return for society and our shareholder.

Company-wide Priorities

To meet our goals, VIVAT Schade has set several company-wide priorities:

Customer Advocacy

1. Develop seamless customer experiences starting from customer needs;
   > Omni-channel sales and (self) service;
2. Review and develop product offerings against changing customer needs and
   market developments;
   > Simple and easy to understand;
   > Transparent pricing and fair conditions;
3. Continued investment in relationships with our distribution partners;

Profitable Growth

4. Balancing volume and value to achieve optimal levels of capital generation;
5. Continued re-risking of the investment portfolio whilst safeguarding a solid solvency ratio;

Cost Discipline

6. Increase efficiency by implementing digital technologies throughout the value chain:
   > Build state-of-the-art digital sales & (self) service capabilities for all our brands and channels (direct and indirect);
   > Achieve operational excellence through digitisation of (back end) processes using both proven and innovative technologies such as Customer Relations Management (CRM), Business Process Management (BPM), chatbots and robotics;
   > Digitisation of customer communications.

Across these priorities we apply smart innovative technologies and approaches in combination 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.

Strategic Themes for the Business

To achieve the above mentioned goals, VIVAT Schade has formulated four key themes:

- Customer centricity
- Data
- Digitalisation
- Innovation

Customer Centricity means that we put the interest of the customer first. This will help us with our goal Customer Advocacy. So will using (smart) data, by which we can improve our products and offerings in the interest of our customers. Digitalisation of our (back end) processes will help us be more cost effective. Lastly, by innovating our products and especially the way we develop them, we are able to answer more quickly to the ever changing customer needs.

3.3. Corporate Social Responsibility

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

At VIVAT we see it as our task to create value in the long term. For our customers and for the world around us. That is why corporate social responsibility is an integral part of our strategy and of our business operations.

As an insurer, VIVAT plays an important role in the lives of our customers. By covering the protection of our customers' property, we make important choices every day. These choices have far-reaching influence on the world of tomorrow. In fact, with the assets we manage on behalf of our clients, we can and want to exercise our influence on that world. In the interests of our customers and those of their children, in the interests of our neighbors, of ourselves and of all those others we do not know.

The world around is in a constant state of flux: just think of the climate agreement, the fair allocation of labour, scarcity of water, land use through deforestation, monoculture and the suppression of biodiversity, the consequences of extreme weather, segregation in society and access to affordable insurance for everyone, to mention just a few factors.

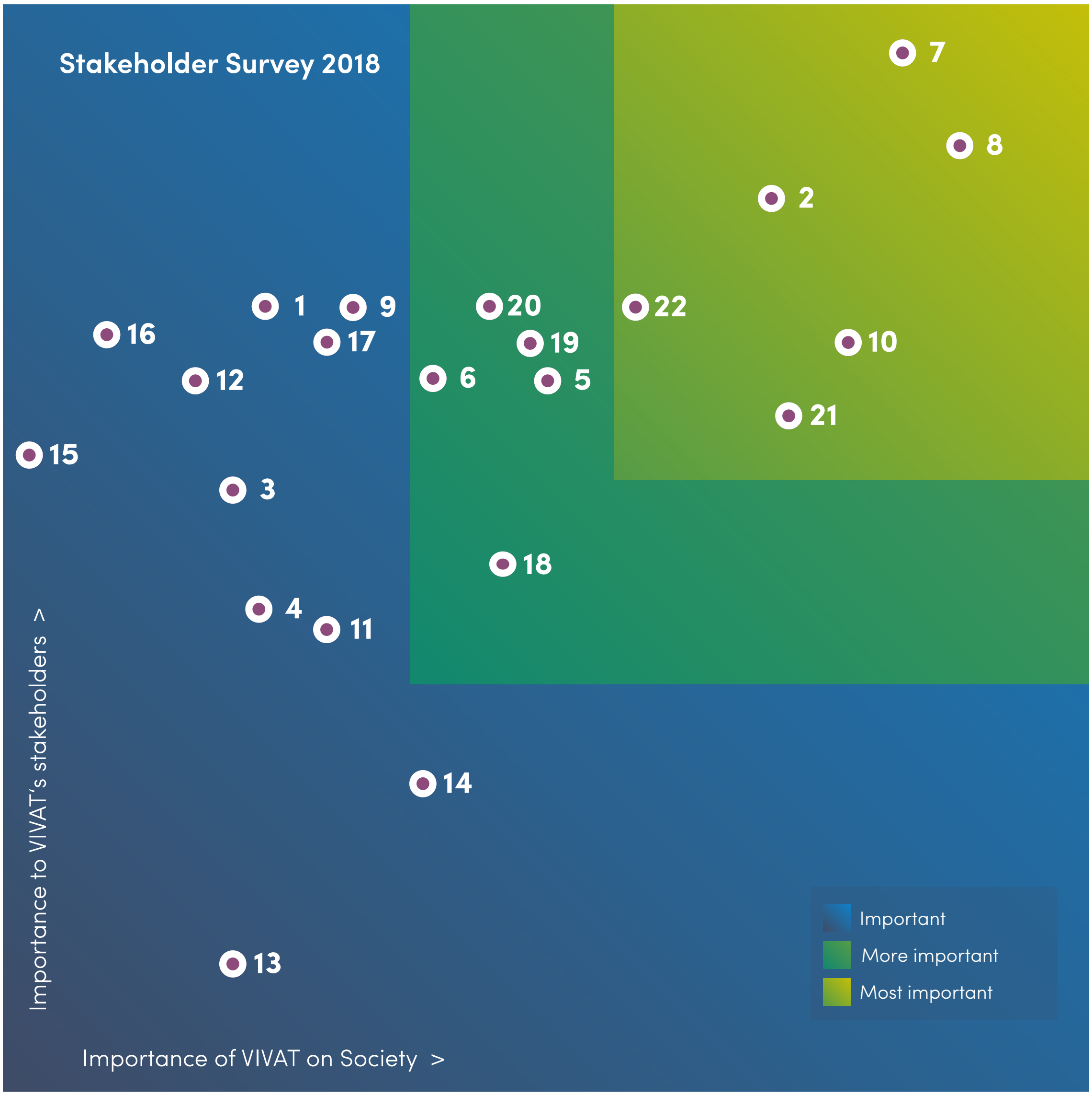
For VIVAT and its brands, these are pressing social developments and topics, with no easy solutions to hand, although they certainly have an impact on our strategy: business practices and trade. We not only want to be but also must actively working on finding solutions to developments in society. These solutions may lie in the way we invest, proactively coming up with ideas and working on keeping casualty as well as life insurance products affordable into the foreseeable future, partly by introducing greater circularity and rediscovering the utility function of old. And we're not doing this in isolation. We must address these challenges alongside our stakeholders – our customers, intermediaries, government authorities and civil society.

Therefore, at VIVAT we are in touch with our surroundings, drawing input to help determine the course we take. As an example, VIVAT undertook a survey in 2018 among a broad representative sample of our stakeholders. We used the results to help update our strategy, along with our underlying targets and priorities.

The survey helped us to bring focus to our strategy, priorities and Corporate Social Responsibility (CSR) programme. These areas came out as being the most relevant:

1. Investing responsibly (#7)
2. Solvency (#8)
3. Being a good employer (#2)
4. Responsible pension (#10)
5. Permanent employability (#22)
6. Sustainable use of land (#21)

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.



Determination of materiality and stakeholder engagement

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 CO_2 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

3.3.1. Our Three Strategic Priorities

Based partly on the survey of our stakeholders and the global sustainability agenda of the United Nations – the Sustainable Development Goals (SDGs) – we have formulated the following three (CSR) priorities to guide our actions, which also take into consideration the strategic themes for the product lines.

The UN Sustainable Development Goals

1. We have a Sustainable Customer Relationship

VIVAT 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. With this priority we contribute SDG 8: Decent Work and Economic Growth. With this priority we contribute to SDG 12: Responsible Consumption and Production.

2. We Invest Responsibly

For VIVAT, 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 SDG 15: Life on Land.

3. We Run our Business Efficiently and Sustainably

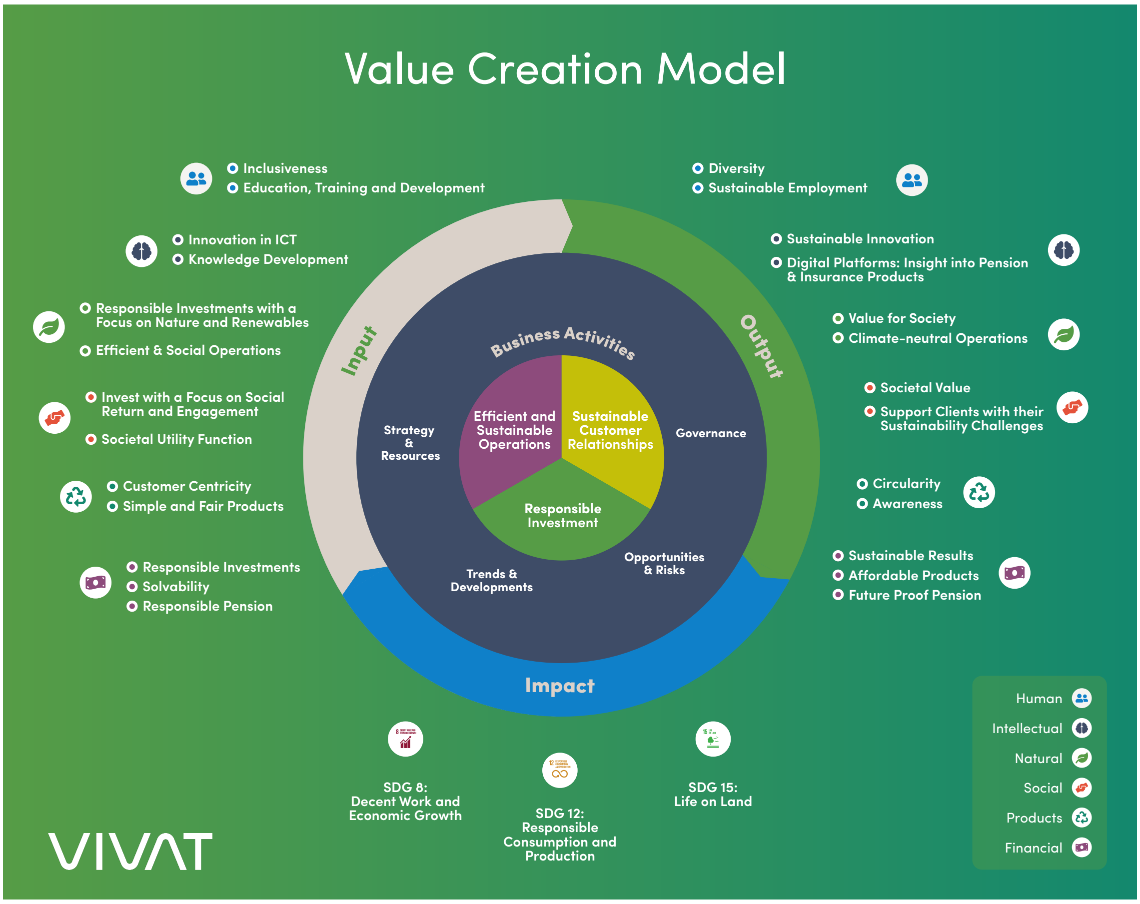
VIVAT wants to limit the impact of our own business operations. That is why we take climate-neutral and circular measures in the areas of housing, mobility, energy and waste. In the partnership with suppliers and partners, we are increasingly looking for companies that share the same objectives. We cannot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

3.3.2. How We Create Value

Our value chain consists of the activities and processes that allow us to offer property & casualty and disability insurance products. These put us in the positions of employer, collaborative partner, neighbour, customer and investor.

Value Creation Model

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.



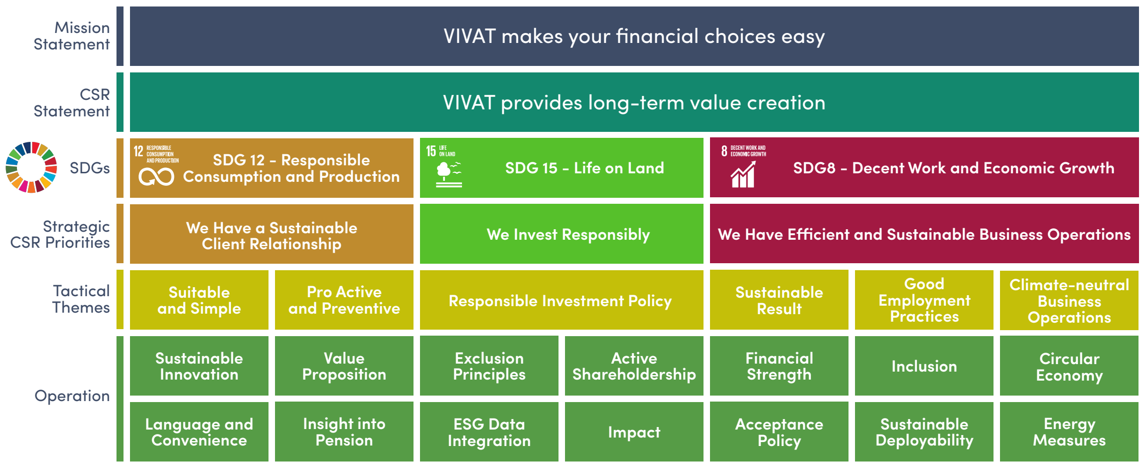
VIVAT Value Creation Model

How We Translate Strategies into Actions and Objectives

Our CSR policy forms an integral element of our corporate strategy. When we formulated the CSR policy, we built on VIVAT's existing mission statement.

VIVAT chose to adopt the UN SDGs as guidance for the further development of an integrated CSR policy for our business practices. This involved highlighting the most relevant of them that are appropriate in the context of the vision statement and the CSR statement. These are shown below in an illustration based on the clusters of VIVAT's customers, their investments & assets and internal corporate housekeeping.

The strategic CSR priorities are linked to the SDGs we have chosen, and these in turn are linked to the underlying tactical topics that flesh out the policy.



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

One example of an operational topic is the acceptance policy for business customers. VIVAT has taken some fundamental steps in entering commercial customer relationships for products. Business customers who wish to buy in products from VIVAT are assessed based on an exhaustive list of ESG points. The results of this determine whether we conclude and/or extend administration agreements. Administration is done step-by-step, to ensure that it is controlled and meticulous. After evaluation, further lines will gradually be cast, in the direction of VIVAT's property & casualty insurance.

Another aspect is active shareholder status and impact. VIVAT can make a difference with the assets we manage for our customers. Our convictions persuade us that we have to offer solutions for social challenges as well as purely financial returns. We use a range of 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

What Challenges do we Face?
VIVAT can perceive challenges in many different areas. These are some of the important ones.

- The impacts of climate change on VIVAT's business practices and solvency. The link to SDG 13 Climate Action is a relevant one. The focus here is on improving awareness in relation to the mitigation of climate change. How can VIVAT, in conjunction with its customers and business sectors, achieve a package of measures to maintain a degree of control over losses to products and assets for business customers?
- VIVAT is keen on achieving the integration of gender equality (SDG 5) and a reduction of inequalities (SDG 10) as part of the tactical topic 'decent work and economic growth' under SDG 8. This includes the support adopted by VIVAT for the inclusivity of LGBTI topics. How will VIVAT roll out the inclusivity, from company culture to monitoring and reporting, in a way that does justice to the social responsibility stemming from the intrinsic values or from legislation and covenants?

3.3.3. Sustainable Customer Relationship

Fair and Transparent Service
Customer Centricity is essential for VIVAT's success. It is one of our four strategic pillars. 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 2018, VIVAT cannot report any scores.

Customer Loyalty and Customer Satisfaction

NPS

Customer loyalty and satisfaction are monitored at VIVAT level. As a leading indicator for Customer Centricity, the Net Promoter Score (NPS) is an important KPI within our company. NPS measures the willingness to recommend our brands to friends and family, providing a broad perspective on how our customers value the overall relationship with us. Based on the NPS survey results, our customers can be categorised into 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 score is derived and reported quarterly, in order to monitor the progress and gain insights in the areas for improvement.

Net Promoter Score

	2018	2017
VIVAT Schade	-14	-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). The results help to understand how the overall service is perceived by our customers, identifying drivers for improvement in key customer service processes.

The average satisfaction score of VIVAT Schade is 7.5.

Customer Satisfaction

	2018	2017
VIVAT Schade	7.5	7.6

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. 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 certain 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, and therefore VIVAT Schade, collects, 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 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 2018, a privacy programme was in place to ensure that VIVAT would become compliant with the GDPR. Within this programme a split was made between certain affairs that had to be in place on or before May 25th (plateau 1) and thereafter (plateau 2). Due to key decisions by the Executive Board the design, existence and operation of the most crucial elements of the GDPR are in place, including a plan of action on how to address outstanding gaps.

Nevertheless, some changes still have to be performed. A governance framework with Privacy Champions (reporting to their local management) and key controls has been developed to ensure structural accountability going forward. The information of the data breaches is presented at VIVAT level. In 2018, 146 data breaches were reported to NFR of which 14 have been reported to the Dutch Data Protection Authority. For more information relating to non-financial risks we refer to paragraph 7.9.4.

3.3.4. Responsible Investing

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. Thus, 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 2018, the majority of companies that our asset manager ACTIAM has excluded (about 30%) were based on the Environment Principle, 24% of the exclusions were based on the principle ‘Customer and Product Integrity’, and 23% were based on the principle ‘Weapons’.

In 2018 we have had numerous proactive engagements with companies. In terms of our strategic themes, about 45% of our proactive engagements were focussed on our theme Climate, 21% on Animal Welfare, 15% on Water, and 14% on Land. When it comes to responsive engagement according to our principles: about 80% of our responsive engagements targeted the environment.

Human Rights

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.

These principles are included in Our Acceptance Policy for Business Customers. Business partners who want to purchase products from VIVAT are tested on the basis of a comprehensive list of sustainability criteria (ESG points). To keep the execution controlled and careful, we choose to further implement this policy step-by-step. We have developed this policy in order to mitigate (reputational) risks related to human rights violations by our customers. We recognise the potential negative impact of human rights violations at our customers for our business.

Going forward, VIVAT is looking into further incorporation of data protection and customer privacy. It will also help us in the development of an adequate measure.

Anti-corruption and Bribery

VIVAT considers involvement in corruption (forms of corruption include: bribery, extortion, fraud, collusion, money laundering, embezzlement illegal political contributions, nepotism and certain facilitation payments), as defined by the following mechanisms, to be in violation of our 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
- Principle 10 of the UN Global Compact
- Sanctiewet en regeling toezicht sanctiewet 1977

VIVAT takes a zero-tolerance approach to corruption and bribery. On an annual basis VIVAT assesses, by means of a VIVAT wide systematic integrated risk analysis, several corruption and bribery risks which include the analysis of integrity risks regarding:

1. accepting (implicit) favours from suppliers or stakeholders,
2. accepting or providing gifts and hospitality, which inappropriately affecting the independence of employees, VIVAT or third parties, and
3. in general the sensitivity for corruption of a close stakeholders (e.g. intermediary, insurance broker, start-up).

Beside of specific corruption and bribery integrity risks, VIVAT also assesses to corruption related integrity risks like conflict of interests and internal fraud on an annual basis.

The outcome of the integrity risk analysis serves as a basis for a risk-based approach to corruption and the corresponding mitigating actions. The VIVAT risk policy on corruption and bribery is the foundation of the mitigation actions and include provisions regarding risk analysis on corruption and bribery, screening of employees, due diligence of third parties, gifts, hospitality and donations requirements, financial record keeping requirements, gifts, hospitality, donations and sponsoring and inhouse training and internal communications.

In order to guarantee the integrity of VIVAT and its staff and to combat corruption and bribery, VIVAT tests the integrity of all potential employees through pre-employment screening. Senior management will also be subject to an additional screening on financial antecedents. VIVAT has a pre-employment screening policy in place. The pre-employment screening process is controlled by specific key controls and management controls. A due diligence will be executed to cover persons or entities associated with the party to which payments will be made or by which acts will be performed for or on behalf of VIVAT. VIVAT has a procurement policy in place which the due diligence requirements within Procurement. The due diligence process is controlled by specific management controls. VIVAT keeps financial records and has appropriate internal controls in place which can be used to collect evidence for the business reason making payments to third parties or by associated persons who act for or on behalf of VIVAT.

VIVAT Schade has a Code of Conduct in place with rules of conduct concerning bribery, avoiding conflicts of interests, gifts and side activities. Training on this policy and the Code of Conduct form part of the induction process for all new employees. All existing employees will receive regular, relevant training on how to implement and adhere to this policy and the Code of Conduct. Senior management procurement, account management, marketing and communication departments will receive additional communication to emphasise their responsibility towards the policy on corruption and bribery.

In order to foster the reporting of (potential) incidents concerning corruption and/or bribery, VIVAT Schade has an online incident hotline and whistleblowing procedures in place. Key risk indicators have been identified to monitor and report on incidents. VIVAT Schade reports all high-risk incidents, including corruption and bribery incidents, to the Executive Board and Supervisory Board. In 2018 no incidents of corruption and/or bribery were reported. In 2018 no incidents of corruption and/or bribery were reported. Compliance monitors risk-based the effectiveness and the implementation of the provisions in the policy on corruption and bribery, considering its suitability, adequacy and effectiveness of its measures to provide assurance that the measures are effective in countering corruption and bribery.

Anti-money Laundering

VIVAT, and therefore VIVAT Schade, assesses risks regarding money laundering, terrorism financing and sanctions on a yearly base, by means of a systematic integrated risk assessment. The outcome of the integrity risk analyses serves as a basis for a risk-based approach of mitigating actions, including policies, controls, reporting and training and awareness. Compliance monitors risk-based the effectiveness and the implementation of the provisions in the respective policies.

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

Environment

VIVAT, and therefore VIVAT Schade, wants to make our investments measurable in terms of its sustainable impact, thus 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 investments funds of ACTIAM.

ACTIAM does 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

Companies unwilling to phase out the most carbon-intensive assets, products or processes could be in violation of our principles. Criteria to determine whether companies are in violation of our principles, as well as distinct best practice guidelines, are further specified in ACTIAM's position papers. For instance, ACTIAM does 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.

The data of 2018 regarding the responsible investments of ACTIAM have not yet been validated and can therefore not be included in this annual report. After validation the data will be published on the webpage of ACTIAM.

Life on Land

Within our investment policy, VIVAT has chosen to focus on Sustainable land use. Sustainable land management is about minimising land degradation, restoring affected areas and making optimal use of land and its resources. Therefore, we look at international developments and activities that have a large impact on land quality. Topics we address are deforestation, pollution and the growing demand for food as well as the resulting environmental and crucial social consequences.

Our asset manager ACTIAM has a range of instruments to achieve our objectives. Through a policy of shareholder engagement, either through dialogue or voting at general meetings of shareholders, we aim to encourage behavioural change at the companies in which we invest and challenge companies to:

- Provide insight into their land use (risks, opportunities and impact), make sustainable land management an integral part of their operations, and be open about the results.
- Respect people, animals and the environment, both at and around the production location and in the wider supply chain.
- Contribute to new and innovative technologies for sustainable land management and food production.
- Respect land rights.

3.3.5. Efficient and Sustainable Business

For VIVAT, and therefore VIVAT Schade, it is important to minimise the negative impact of our own business operations. Being climate neutral is one of our main objectives. We have translated this into two operational themes: energy measures and the circular economy.

Energy Management of our own Operations

In 2018, VIVAT has established a stable energy consumption. We used a hundred percent green gas and electricity, as we have done in the years before and still do up to this day. In 2018 we started working on improvements to make our Torenburg office more energy efficient by connecting the seasonal thermal energy storage (STES) to the data storage rooms and using the cooling from the STES towards the data storage rooms and the heat vice versa.

The following tables include energy management information on VIVAT level.

Energy Consumption of Office

	2018	2017
Energy consumption kWh per FTE	1,496	1,766
Energy consumption kWh per m^2	87	100

Share of Green Energy Offices

% of total	2018	2017
% Sustainable electricity	100%	100%
% Sustainable gas	100%	100%

Carbon Emissions (tonnes)
Carbon Emission

	2018	2017
Business travel and commuting	4,405	4,698
Operations	107	89
Net emissions	4,512	4,787
Gross emissions[1]	6,589	7,550

[1] Gross emissions would be VIVAT's emissions using 0% sustainable electricity.

Energy Management in VIVAT's Supply Chain

All our suppliers 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 CO_2 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.

Our activities to work towards climate neutrality go beyond the offices in which we operate ourselves. Via our investment properties we aim to make a significantly larger impact. We do so by focussing on three angles: organising campaigns to raise awareness towards the rental parties of properties, making properties more sustainable by moving towards a minimum of C Energy Label, and looking for sustainable carbon-neutral alternatives for traditional energy sources. These measures have resulted in a 19.4% drop in energy consumption in 2018 versus our 2015 baseline. Our gross carbon emissions have dropped 5.9% over the same period.

Circular Economy

Besides the integration of circular buildings that has been done and is still ongoing within the VIVAT properties, VIVAT Schade wants to contribute to a circular economy by working on recuperation in kind. An example is that we steer on optimising the number of car recoveries via existing recovery networks (Schadegarant and Glasgarant). For car insurance we have set our target to have more than 90% recovery in kind.

3.4. Our Brands

3.4.1. Reaal

Reaal improves the financial resilience of customers by helping them make well-considered choices about their financial situation.

3.4.2. nowGo

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

3.4.3. 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 some 70,000 bosses and their favourite pets.

3.4.4. 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.

3.5. Our Product Line

Property and Casualty

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

VIVAT Schade aims to grow the portfolio by providing our customers with clear products and fast services at a competitive price. VIVAT Schade also aims to be the most innovative P&C insurer by collaborating with partners to offer innovative propositions for our customers and to improve our risk management by integrating data and using new ways to analyse these data. Therefore, VIVAT Schade focuses on creating sustainable profitable growth, while improving the Combined Ratio (COR) of the existing portfolio. VIVAT Schade believes in continuous monitoring of the profitability of all segments in the portfolio by applying dynamic pricing in the renewal portfolio.

Objectives for 2018

While the P&C market remains highly competitive, the dynamics are changing. The market is consolidating and the attitude towards loss-making business appears to be changing, in the sense that insurers are no longer accepting losses. This is reflected in for example increasing premiums for motor insurances.

In view of these market developments, one of the objectives is to increase profitability by raising premiums and to look for opportunities where other insurance companies are retracting. When identifying opportunities, the goal is always 'margin over volume'.

VIVAT Schade focuses on creating automated processes to improve customer satisfaction and reduce costs, while also integrating data solutions in our underwriting cycle to achieve profitable growth in the retail market.

For the commercial lines, the focus is on having knowledgeable staff that can act as a sparring partner for our distribution partners to help insure our customers in line with their risk and their needs.

Achievements in 2018

In 2018, VIVAT Schade continued its strategy, which resulted in a Combined Ratio below 100% for the second year in a row. The underlying portfolio improved, and the result was achieved while absorbing the impact of the 'Frederieke' windstorm in January (€ 25.2 million gross and € 20 million net of reinsurance). Commercially, the portfolio grew with 6% in a flat market.

VIVAT Schade profited from product improvements, IT rationalisation and our strong relationship with the intermediaries and Authorised Agents.

The growth was visible in all VIVAT Schade's channels, meaning that the authorised agent, co-insurance and banking channel continued their growth and that intermediary personal lines, commercial lines and digital have turned their declining trend to growth. This resulted in major increases of quotations, applications, mutations and claims. This extra work was absorbed by the same workforce due to process improvements and automation.

In the retail market VIVAT Schade increased its efforts in data collection and analysis to improve the insurance technical cycle. In the Dynamic Pricing Programme, data are centralised, and more effective methods are being used for portfolio management and attracting new business. Furthermore, VIVAT and VIVAT Schade started an Insurance Lab with Amsterdam Data Science, in which three PhD candidates investigate new data applications and techniques in risk modelling, fraud detection and customer acquisition. Customer satisfaction remained stable at -14, which means the highest score ever was consolidated.

The intermediary retail portfolio grew after years of decline. The new business was 233% higher than in 2017. The intermediary satisfaction increased from 6.6 to 7.0 in 2018.

In the commercial lines, VIVAT Schade launched a new product package ('Bedrijven Totaal Pakket') at the end of 2017. In 2018 more products were added to the proposition and feedback was used to improve the proposition. To execute the strategy, specialised employees were attracted for both underwriting and claims management. This resulted in 66% higher new business than last year and an increase in intemediary satisfaction from 6.4 to 6.9.

We managed to further simplify the organisation by finalising the conversion of the intermediary portfolios to the target architecture. Also, VIVAT Schade started preparing to centralise the activities performed at the office in Assen, that will be closed in the course of 2019. This will lead to a reduction of the number of VIVAT Schade locations in 2019. These simplifications are designed to make VIVAT Schade more flexible and agile while also reducing costs to further improve our competitive position.

Looking forward, VIVAT Schade expects climate change to have an impact on the P&C insurance market and on society. Therefore, we have made climate a key theme of our innovative agenda. VIVAT Schade launched a climate challenge, in which several start-ups from all over the world could pitch their ideas on how to combat climate effects in a way that benefits both customers and insurers. VIVAT Schade has started a collaboration with the winner of this challenge. VIVAT Schade also actively notifies customers and gives tips to prevent damage to themselves or their belongings when bad weather is approaching.

Disability Insurance

The Disability portfolio managed to continue its strong results in 2018 thanks to a focus on prevention through the *Lijfwacht* programme and a clear strategy around claims aimed at helping the customer to reintegrate in a sustainable manner. This results in lower claims for the insurer and leads to satisfied customers. The NPS improved further to -7 and the goal is to have a positive NPS. Commercially, Disability ran several campaigns that ensured stable premium levels throughout 2018. The portfolio's decline slowed further and is almost stable in premium level.

Financial Education

In March 2018, VIVAT employees have voluntarily participated in the 'Fix je Risk'-programme, initiated by the Dutch Association of Insurers and the Ministry of Finance. Various insurance professionals within VIVAT, including ceo Ron van Oijen, visited classrooms to teach children at primary schools about insurances.

Challenges

Property & Casualty also faces challenges. The market for P&C is highly competitive and some products are loss making for the market as a whole. The climate change will also have an impact on the P&C business as well as the introduction of new technologies.

3.6. Our People

Our employees are key for putting our mission into practice. We are a business that serves the financial interests of others, and therefore we require a staff that is fully committed to this task. This means being a responsible employer by promoting sustainable employability (e.g. vitality, personal development) and sustainable employment relations (flexibility, diversity). Not being a responsible employer could impair our ability to continue our strategy and could also negatively impact the engagement and commitment of our employees. In addition, in the context of the strategic review process by Anbang, VIVAT has considered risks regarding our employees, such as leaving of personnel and single points of knowledge, our ability to attract new staff and commitment of our employees. HR is monitoring these risks closely and will continue monitoring in 2019.

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. Employees of VIVAT Schade are employed by VIVAT. The costs of employees appointed to VIVAT Schade are charged to VIVAT Schade by VIVAT. The information of Our People is presented at VIVAT level.

Key Figures VIVAT Human Resources

	2018	2017
Number of employees[1]	2,462	2,542
- of which internal	2,010	2,060
- of which external[2]	452	482
Number of FTEs	2,367	2,466
- of which internal	1,983	2,022
- of which external	384	444
Ratio male-female	59% / 41%	58% / 42%
Female managers	27%	25%
Female members of senior management	25%	23%
Average length of service (years)	12.6	12.7
Average age (years)	44	43
Full-time/part-time ratio	71% / 29%	70% / 30%
Male / female ratio full-time	73% / 27%	72% / 28%
Male / female ratio part-time	24% / 76%	25% / 75%
Ratio permanent/temporary contract	93% / 7%	92% / 8%
Male / female ratio permanent	60% / 40%	60% / 40%
Male / female ratio temporary	61% / 39%	61% / 39%
Training costs (million)	€ 4.8	€ 3.4
Sickness absence	3.8%	5.1%
Percentage of employees that have sworn the bankers oath	97%	98%

1 Number of redundant employees as per 31 December 2018 is 3 (31 December 2017: 58)
2 Number of external employees is based on contractual hours

VIVAT Schade's number of (internal and external) employees is 850 at the end of 2018 (2017: 841).

3.6.1. Employability

Employment Mobility

Mobility within VIVAT is encouraged and supported. Employees are being nominated for fulfilling internal vacancies at various levels, within their product- of functional line or cross-over. In our Talent Review we identify employees for succession planning.

Personal Development

Due to regulations, all employees within the company who give advice to our clients need to have a Wft diploma (Wft stands for: Wet op het financieel toezicht) and need to continuously update their professional knowledge. Besides that, we challenge our employees with short articles and surveys with questionnaires about relevant topics within their scope, like compliance, life, insurance, etcetera. This is called PA (Permanent Actuality). Personal development is supported by a learning portal that provides a range of training courses and tools, including 360-degree feedback and a network of coaches.

According to VIVAT's Collective Labour Agreement, all VIVAT employees, including those working for VIVAT Schade, have an annual growth budget to spend on his/her personal development. In this way employees are in control of their own career and development. The annual budget can be spent on an education, course or workshop that adds value to one's employability. Employees can also reserve their budget for a maximum of three years to save up for a more expensive education.

Training and Education

Training and education continue to be important. Employees are offered the possibility to further develop their skills and knowledge in their own area of expertise as well as their ability to communicate and collaborate with colleagues in other departments. In our performance management cycle, we address personal development, and managers and employees have career development meetings. Furthermore, ongoing training is provided to keep employees up to date in accordance with the requirements of the Dutch Financial Supervision Act. The HR information system informs managers of the status of the necessary diplomas or professional qualifications of their staff.

In the Summer of 2018, VIVAT launched the VIVAT Summer School that enabled employees to enlist in free workshops and courses that were organised in the month of August. Over 1.500 employees participated in events with topics that varied from data, innovation and UX Design, to Agile Working, Effective Writing, Communicating, Mindfulness and Growth Hacking.

Knowledge in the field of innovation and data is also obtained by means of partnerships and collaboration with start-ups and universities. Therefore, VIVAT has entered into partnerships with Startup Bootcamp and Innoleaps at B. Amsterdam for Innovation and with the Erasmus University Rotterdam and the Jheronimus Academy of Data Sciences (JADS) in Den Bosch for data education. Furthermore, talented students of the Rotterdam School of Management can do research within VIVAT on data analytics as well as digital business development.

In 2018, all senior management roles were revised and plotted in a new framework. For each role, a so-called 'Strategic success profile' was defined. This profile describes which competences, traits and drivers are needed to be successful in the specific role within VIVAT. All senior managers (above-CLA) were offered an assessment to identify their strengths and development potential. The assessments match the qualities of the individual versus the respective Strategic Success Profile. Each assessment was accompanied by managerial feedback and a development meeting with the responsible line manager and HR. Subsequently a development plan was made for each senior manager to further strengthen their qualities.

Succession Planning

VIVAT uses Career Development Meetings, the Talent Grid and the Mid-Year Review to ensure that critical positions within the company are always filled with competent employees. Succession planning helps VIVAT to ensure our continued success and it helps employees to be prepared for next steps. On a yearly basis we identify the critical positions and aim to make sure that we have employees on hand, ready and waiting to fill the new positions (now, in one to two years and in three to five years).

Vitality

To ensure the health of our employees and keep absences due to illness to a minimum, VIVAT works intensively together with external company doctors and counsellors. In 2019, VIVAT will switch to a new health and safety service provider. VIVAT also offers sports facilities and encourages employees to adopt a healthy lifestyle. In 2018, due to focus among all managers and Human Resources the sickness figure decreased from 5.1% to 3.8%.

For the second consecutive year, VIVAT organised its own 'Week of job satisfaction' (Dutch: 'Week van het werkplezier'), instead of participating in the national 'Week of work stress'. It is VIVAT's believe that work should be fun. Therefore, all employees were encouraged to participate and learn how to deal with modern day work live: often rushed, full of deadlines, agreements and time pressure.

Because work-related stress is national disease number 1, recognising stress symptoms is very important. With workshops, information and other activities we raised awareness and gave tools to be more relaxed, energetic, fit and active during work.

Employee Satisfaction Survey

In 2018, VIVAT conducted an Employee Satisfaction Survey. Approximately 92% of the employees participated in the survey that was set up by Effectory, Europe's largest provider of employee feedback solutions. The outcome of the survey was shared on VIVAT and team level with all individual employees. , Based on the outcome, each team was able to make plans on how to improve or maintain the satisfaction level.

3.6.2. Terms and Conditions of Employment

VIVAT's aim to be an appealing employer is reflected in the company's terms and conditions of employment. In 2018, VIVAT abolished variable remuneration for VIVAT employees. This policy aims to avoid undesired incentives and ensures that customers are treated fairly in relation to employee remuneration.

The pensions of VIVAT employees have been accommodated with the SNS REAAL Pension Fund Foundation. This foundation reports independently and publishes its own annual report.

Diversity and Inclusion

Employees of VIVAT can be described as experienced, high educated, loyal to the company and diverse. It is our aim to have a workforce that reflects the composition of our customer base. This includes a good balance between male and female. However, for each vacancy within VIVAT Schade we look at the best candidate for the position, regardless of gender, origin or age. Our management systems provide daily insight into the male-female ratio. In 2018, VIVAT drafted an 'equality policy' that sets the ambition to have at least 40% women in management positions in the future. Within the function groups we strive to have at least 40% woman or men in the nearby future. In its recruitment approach our HR department will pro actively search for people that will bring a more gender equal balans in the function groups.

Diversity in %

Female in %, by function group as at the end of the year	2018	2017
Executive Board	33.3%	28.6%
Supervisory Board	20.0%	20.0%
General Managers, Managing Directors, Directors	20.5%	16.0%
Unitmanagers, managers	28.0%	27.6%
Other staff	42.4%	42.9%

The information above is presented at VIVAT level.

3.6.3. Recruitment

The vivat.jobs website, applicant tracking system and Artificial Intelligence (AI) job marketing solution, all launched in 2017, continue to perform well in conjunction with other external job marketing and employer branding initiatives. In 2018 we have further refined our interview processes, candidate attraction strategies and referral programme both internally and externally.

These initiatives have led to improved key recruitment metrics in terms of costs as well as time. We continue to review and adjust these initiatives, systems and processes incrementally to further improve recruitment return on investments.

We started integrating recruitment of temporary external hires into the recruitment process, to ensure consistency in quality of hire and a controlled and efficient hiring process.

It remains our goal to provide authentic content that reflects our main organisational goals and to provide insight into the exciting challenges our people tackle within their specific positions at VIVAT.

3.7. Financial Results

Main developments in 2018

The net IFRS result improved by € 4.9 million to € 9.7 million compared to 2017 due to an improved technical result, despite the impact of the January storm (-/- € 15 million), VIVAT Schade also had a strong commercial year in a flat and competitive market. Gross premium income increased by 6% in 2018 to € 723 million compared to 2017. This was due to growth in multiple areas of the portfolio but mainly Authorised Agents. Also there was a release of the unearned premium reserve linked to authorised agents due to an improvement of in-depth portfolio data.

Direct investment income was lower compared to 2017 because of the lower yield on the investment portfolio as this portfolio mainly consists of AAA sovereign bonds and investments in money market funds. Although extra costs for the handling of the January storm were made and reorganisation expenses were applicable in 2018, operating expenses were equal to the previous year (after deduction costs for a total amount of € 13 million, which are the consequence of two merges) supported by reducing office locations and other cost reduction activities. The costs that are ascribed to two merges relate to Volmachtkantoor Nederland BV in 2017 (retrospective to 2016) and tot Fnidsen Beheer BV in 2018 (retrospective to 2017).

The NUR was higher in 2018 due to cost reductions and an improved technical result from continuous efforts to improve underwriting and claim management. Despite the impact of the January storm (-/- € 15 million), the technical result improved because of positive developments in the most recent accident years (mainly in Fire) and a release from the unearned premium reserve (net impact € 10 million) linked to authorised agents due to an improvement of in-depth portfolio data.

Financial Result

In € millions	2018	2017[1]
> Result		
Gross Premium Income	723	683
Direct Investment Income	12	15
Operating expenses	116	129
Net Result IFRS	10	5
Net Underlying Result	8	-

[1] Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.

Balance sheet

Total assets of VIVAT Schade decreased by € 33 million to € 1,773 million. This decrease mainly consists of disposal of loans (-/- € 50 million), partially compensated bij increase of investments available for sale (+/+ € 40 million), a liability regarding corporate income tax of € 2 million compared to a receivable previous year of € 12 million and the realisation of assets held for sale (CED) in 2018 € 7 million.

3.8. 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.

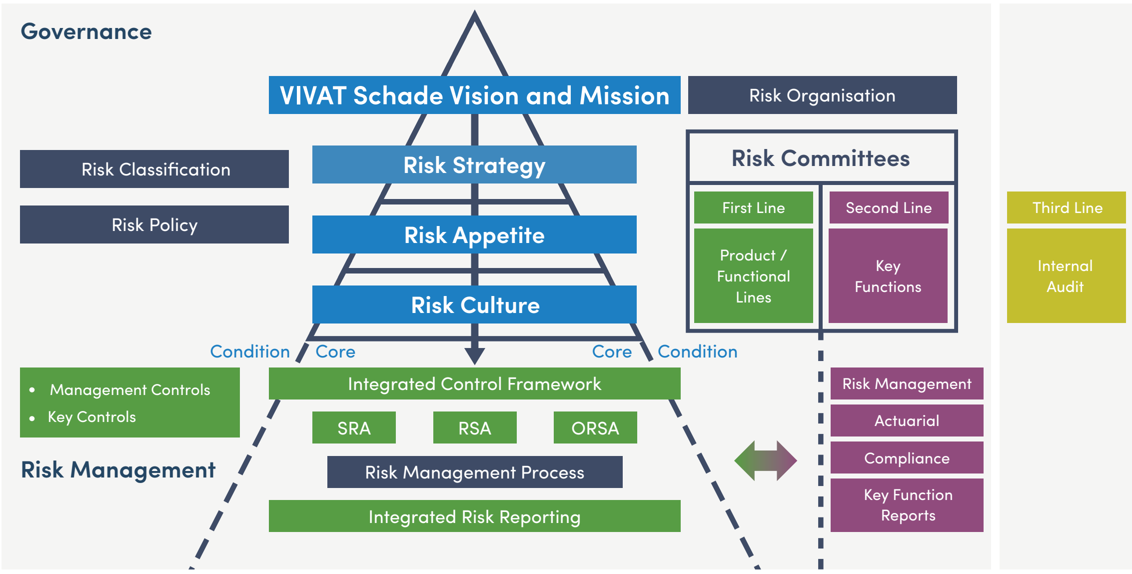


Figure 6: Risk Management

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 vision and 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 second line key functions and the business 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 vision and 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. The ICF was further strengthened in 2018 by focus on the governance, structural improvement of process design and increased analysis and reporting possibilities in GRC tooling. The governance was strengthened by installing an Operational Risk and Compliance Committee at VIVAT level. Regarding process design initiatives were started to facilitate and strengthen process ownership for solid process and control design in which all risk and regulatory elements are incorporated. Also, good progress was made in 2018 in order to incorporate automated controls within the ICF.

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 Asset and Liability Management (ALM) policy covers the management of market risk, counterparty default risk and liquidity risk. The starting point for the ALM policy is the ALM study, which is drawn up annually. The ALM study seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, and laws and regulations, and is performed at the end of the year. This ALM study 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 limits based on the Risk Appetite Statements (RAS), solvency, the tax position and the long-term risk exposure. 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.

Developments

In 2018 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 order to realise more efficiency, VIVAT Schade has defined the target IT landscape and non-target systems are made redundant. This rationalisation will continue in 2019. VIVAT Schade is aware of the increasing strategic importance of collecting, managing and use of data, taking into account relevant legislation, e.g. GDPR. VIVAT Schade has implemented a sustainable design for Data Governance to manage and monitor the diverse data related initiatives.

In 2018, VIVAT Schade completed its model inventory and by that increased overview and insight into its model landscape. Within the Risk Model Landscape programme important steps towards lower model risk are taken by converting important SCR- and ALM-tooling. 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 decreased from 162% to 156% in 2018. This decrease was driven both by management actions and market developments.

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

- VIVAT Schade has purchased additional reinsurance cover through an Annual Aggregate Excess of Loss treaty for 2019, decreasing the Non-life underwriting risk (catastrophe risk) and increasing the Solvency II ratio by approximately 5%,
- an increase in market risk SCR, mainly due to the continued re-risking of the investment portfolio had a negative impact of 4 %-points on the Solvency II ratio,
- Model improvements, which had a positive impact of 3 %-points,
- Losses incurred by the January 2018 windstorm had a negative impact of 4 %-points.
- Tax and Tiering effects have a negative impact to the Solvency II ratio of 3 %-points. This is mainly explained by a decrease in the Loss Absorbing Capacity of Deferred taxes as a consequence of the Senate approved changes to the corporate income tax rate.
- VIVAT Schade has improved technical results, but combined with low expected asset returns and funding costs the other Own Funds development decrease the Solvency II ratio by approximately 4 %-points.

Solvency II position

In € millions/percentage	2018[1]	2017[2]
Total eligible own funds	564	570
SCR	361	351
Solvency II ratio	156%	162%

[1] Regulatory Solvency II ratio is not final until filed with the regulator
[2] 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 ALM Study.

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 Recovery 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, which poses a direct threat to the going concern of VIVAT Schade. In its Risk Appetite Statements, VIVAT Schade has defined specific triggers that determine whether a contingency situation exists.

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 2018 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 Schadeverzekeringen NV 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 Schadeverzekeringen NV this amounts to € 22 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 4.05% 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.

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4. Corporate Governance

VIVAT Schadeverzekeringen NV is a public limited company. Anbang Group Holdings Co. Limited holds 100% of the shares in VIVAT NV, which holds 100% of the shares in VIVAT Schadeverzekeringen NV. VIVAT Schade has a two-tier board structure consisting of an Executive Board (EB) and a Supervisory Board (SB).

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.

4.1. The Executive Board

The Executive Board is responsible for the strategy and management of the company. The Executive Board as of 31 December 2018 consists of the following:

Composition, Appointment and Role

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

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 (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 Association of Insurers.

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 chairman of Fidea NV, as well as 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 (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 (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 (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 sat 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 (Curacao).

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 4.3.

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 SRLEV NV, VIVAT Schadeverzekeringen NV and Proteq Levensverzekeringen 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 Customer Centricity, Data & Analytics, New Recovery & Resolution Tools and IFRS 17.

VIVAT Schadeverzekeringen NV is a public limited company. Anbang Group Holdings Co. Limited holds 100% of the shares in VIVAT NV, which holds 100% of the shares in VIVAT Schadeverzekeringen NV. The Chinese regulator China Insurance Regulatory Committee (CIRC) announced on 23 February 2018 that it is temporarily taking over the management of Anbang. VIVAT Schade has taken notice of this.

4.2. The Supervisory Board

Composition, Appointment and Role

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 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, until recently, 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 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 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 an 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. Until recently, He was chief executive officer of AB Win Win II [LP].

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 in the United Kingdom. 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 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, is a non-executive director of Fidea NV (chair of governance, nomination and remuneration committee) as well as a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen.

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.

4.3. 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%). As the composition of the board did not significantly change over the last years, there has not been an opportunity to make a more balanced composition in the male/female ratio. When the opportunity arises, the Supervisory Board will aim for a more balanced composition of men and women. In case of a vacancy, we will always aim to find the best candidate.

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.

Continuing Education

Members of the Supervisory Board are encouraged to maintain their expertise at the required standard and enhance it where necessary. In this context, a programme is compiled for the Supervisory Board every year. Each year the Supervisory Board members take at least three training courses within the framework of continuing education. The continuing education programme relates to relevant developments within VIVAT Schadeverzekeringen NV and the financial sector, corporate governance in general and of the financial sector in particular, customers, integrity, risk management, financial reporting and audit. The participation of the members of the Supervisory Board in the programme was monitored.

These continuing education sessions included – amongst others – topics on Pensions, Data, Capital Generation and Longevity.

Important Topics and Key Discussions

The formal meetings of the Supervisory Board took place every six weeks (on average). Several 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 briefed on the discussions and resulting recommendations from Supervisory Board committee meetings. Twice a year the Supervisory Board held business reviews with all product lines to discuss business activities and key initiatives.

In 2018 the Supervisory Board discussed and approved several items, such as:

- Investment insurance policies and aftercare programme
- Re-risking programme

- Restricted Tier 1
- Capital Generation
- Risk Appetite
- General Data Protection Regulation
- The Strategic review VIVAT, and therefore VIVAT Schade
- The Operational Plan
- IFRS 17
- Risk Model Landscape

The Supervisory Board and the Chairman of the Supervisory Board had regular contact about these subjects with other stakeholders of VIVAT Schadeverzekeringen NV, the Dutch Central Bank (DNB) and Dutch Authority for Financial Markets (AFM).

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 the policy of VIVAT Schade and to form an independent opinion of the basic risks. Decisions regarding risk management and risk control are prepared and recommended by the Risk Committee (RC) and the Audit Committee (AC), respectively. These committees are carefully composed where at least two members of these committees have 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 report 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 by meetings between the chair of the Audit Committee and the external auditor. The external auditors, by mutual agreement, were represented at all meetings of the Audit Committee in 2018. The Audit Committee discussed the annual plan and quarterly reports of the internal audit function, and evaluated the functioning of Internal Audit. Both the internal auditor and external auditor reported on the quality and effectiveness of governance, internal control and risk management. The Audit Committee took note of and discussed VIVAT's consultations with the DNB, and considered the results of on-site examinations conducted by the DNB. The committees met in the presence of members of the Executive Board.

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.

Cooperation between the Supervisory Board and the committees has been positive. The meetings of the committees drill down into the subject matter so that the decisions of the Supervisory Board can be carefully prepared. The substance of the meetings of the committees is fed back to the meeting of the Supervisory Board to ensure that the supervisory directors are kept fully informed and are well positioned to take prudent decisions.

The Supervisory Board appreciates all the efforts made by the Executive Board and all employees in 2018 and looks forward to continuing this cooperation in 2019.

Amstelveen, the Netherlands, 8 April 2019
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.4. Remuneration

Introduction

VIVAT Schadeverzekeringen NV is a full subsidiary of VIVAT NV. Employees of VIVAT Schade are employed by 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 employees.

The remuneration paragraph describes the principles, governance and elements of the remuneration policies within VIVAT (4.4.1). It also gives an overview of the payment of (variable) remuneration in

2018 (4.4.2), as well as the actual remuneration of the members of the Executive Board and Supervisory Board (4.4.3).

4.4.1. Remuneration Policies

VIVAT Schade's ambition is to be the most innovative 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.

The Group Remuneration Policy VIVAT applies to all employees working under the responsibility of VIVAT including VIVAT Schade employees. Besides the Group Remuneration Policy, specific remuneration policies are applicable to Above-CLA employees and Executive Board. In 2018, the Remuneration Committee has evaluated the expense policy as part of the overall board remuneration policy. Based on this evaluation, the policy has been updated as from 1 January 2019.

For the majority of the employees of VIVAT Schade the VIVAT CLA (Collective Labour Agreement) 2018-2019 is applicable.

Principles

Every remuneration policy is based on the following principles:

- It supports VIVAT Schade's corporate strategy, and is aligned with the mission, vision 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 is aligned 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 Supervisory Board approved the Group Remuneration Policy VIVAT as well as the other remuneration policies. The general meeting adopted 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 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 who are 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, including holiday allowance of 8% and a 13th-month payment of 8.33% and insofar as applicable other fixed allowances. The annual gross salary is based on applicable salary scales. The annual salary increase depends on the achievements on competences, space in the salary scale and is also subject to a financial condition (knockout).

Pension

Nearly all employees participate in the same pension scheme of VIVAT. 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 € 105,075 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).

For the abolition of variable remuneration the employees in the CLA received per July 2018 a salary increase. The Executive Board and the Above-CLA employees (Senior Management) who were employed as per 31 December 2017 received for the abolition of their variable remuneration a compensation as of July 2018. This compensation 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. The percentage of the compensation for the Executive Board is 5% of their fixed annual salary.

Severance Payment

If and insofar a severance payment is due to an employee, such payment will be equal to the transitional fee (transitievergoeding) 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 a new Social Plan 2018-2019 with the unions which is applicable in case of reorganisation(s).

Sign-on bonus & Retention bonus

At VIVAT, special arrangements for employee benefits refer to retention and/or welcome bonuses. VIVAT exercises great restraint when agreeing such arrangements. 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

The majority of above-CLA employees and a few CLA employees are eligible for a lease car or a lease car allowance. In 2017, VIVAT changed its lease policy which limited leasing of cars to those with less than 106 gram CO_2 emissions. In addition, the group eligible for a lease car has diminished. As part of

VIVAT's commitment to impact investment principles, certain types of cars and certain brands are no longer included in this policy.

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.

4.4.2. Overview Remuneration 2018

Target setting

For all employees, the performance management cycle started with setting the performance targets in the first quarter of 2018. These targets are in line with the company targets and the company's mission.

At least 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. For all employees two performance targets were set: One regarding customer satisfaction (the Net Promoter Score) and one regarding digitalisation and/or innovation. In addition, all senior management had also general targets: sound and controlled organisation and a financial target.

Besides the performance targets, competence targets were also set. For all employees two mandatory and one personal competences were set. The annual score on competences can result in a salary increase. The annual salary increase is subject to a knockout financial condition as determined in the CLA.

For Identified Staff, specific rules applied for setting performance targets, determining the extent to which performance targets have been achieved, and for setting and paying variable remuneration – if applicable. The performance targets and variable remuneration were subjected to an ex ante risk & ex post assessment.

Variable Remuneration

In 2018, no variable remuneration is paid for 2018.

Retention scheme

Due to the announced strategic review by the shareholder, VIVAT has offered at the end of 2018 a retention scheme to a few employees with the approval of regulatory authorities. The vesting of this scheme is subject to certain conditions. For the Executive Board members we refer to the disclosure of the remuneration of the Executive Board in Note 15 Related parties in the consolidated financial statements.

Number of employees with a remuneration exceeding € 1 million

In 2018, one employee received a total remuneration exceeding € 1 million.

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

Reference is made to Note 15 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 2018	31 December 2017[2]
> Assets			
Intangible assets	1	385	1,044
Investments	2	1,556,734	1,567,226
Derivatives	3	23,307	18,511
Reinsurance share	9	83,233	89,965
Corporate income tax		-	11,710
Assets held for sale	4	-	7,335
Other assets	5	60,341	70,965
Cash and cash equivalents	6	49,909	47,642
Total assets		**1,773,909**	**1,814,398**
> Equity and liabilities			
Share capital[3]		10,898	10,898
Reserves		325,677	341,355
Total shareholders' equity	7	**336,575**	**352,253**
Subordinated debt	8	150,000	150,000
Insurance liabilities	9	1,134,709	1,158,670
Provision for employee benefits	10	24,552	26,240
Derivatives	3	5,945	7,803
Deferred tax liabilities	11	3,076	3,844
Amounts due to banks	12	17,049	15,667
Corporate income tax		2,482	-
Other liabilities	13	99,521	99,921
Total equity and liabilities		**1,773,909**	**1,814,398**

1 The references relate to the notes to the consolidated financial statements in Section 6.3
2 Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.
3 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]	2018	2017[2]
> Income			
Premium income		723,422	683,227
Less: Reinsurance premiums		44,322	38,969
Net premium income	17	**679,100**	**644,258**
Fee and commission income		1,855	3,891
Fee and commission expense		-	-10
Net fee and commission income	18	**1,855**	**3,901**
Share in result of investments held for sale	4	3,752	897
Investment income	19	21,396	15,847
Result on derivatives	20	6,650	-
Total income		**712,753**	**664,903**
> Expenses			
Result on derivatives	20	-	9,263
Technical claims and benefits	21	422,534	379,293
Acquisition costs for insurance activities	22	154,145	130,700
Staff costs	23	85,070	91,014
Depreciation and amortisation of non-current assets		658	2,604
Other operating expenses	24	29,863	35,385
Impairment losses	25	-318	399
Other interest expenses	26	10,669	10,730
Total expenses		**702,621**	**659,388**
Result before tax		**10,132**	**5,515**
Tax expense	27	495	827
Net result continued operations for the period		**9,637**	**4,688**

> Attributable to:			
- Shareholder		9,637	4,688
Net result continued operations for the period		**9,637**	**4,688**

1 The references relate to the notes to the consolidated financial statements in Section 6.3.
2 Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.

5.3. Consolidated Statement of Total Comprehensive Income

Consolidated Statement of Other Comprehensive Income

In € thousands	Notes[1]	2018	2017[2]
> OCI not to be reclassified subsequently to profit or loss			
Remeasurement effects of defined benefit pension plan	10	2,231	-1,768
Change in other reserves		-27	-
Income tax relating to items that never be reclassified	11, 28	-558	442
Tax rate reduction adjustment relating to items that never be reclassified	11, 28	60	-
Net OCI never reclassified to profit or loss		**1,706**	**-1,326**
> OCI to be reclassified subsequently to profit or loss			
Unrealised revaluations investments available for sale	28	-25,312	-15,921
Impairments and reversals	28	-44	-136
Realised gains and losses through profit or loss	28	-8,873	-579
Income tax relating to items that may be reclassified	11, 28	6,015	4,151
Tax rate reduction adjustment relating to items that may be reclassified	11, 28	1,193	-
Net OCI to be reclassified to profit or loss subsequently		**-27,021**	**-12,485**
Other comprehensive income (net of tax)	28	**-25,315**	**-13,811**

1 The references relate to the notes to the consolidated financial statements in Section 6.3
2 The comparative figures have been adjusted to present the gross amount per line items instead of the amount net of tax.

Statement of Total Comprehensive Income

In € thousands	2018	2017
Net result for the period	9,637	4,688
Other comprehensive income (after tax)	-25,315	-13,811
Total comprehensive income	**-15,678**	**-9,123**
> Attributable to:		
- Shareholder	-15,678	-9,123

5.4. Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Shareholders' Equity 2018

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Retained earnings[2]	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**

[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.
[2] Other reserves and Retained earnings have been aggregated into Retained earnings. The comparative figures are adjusted accordingly.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2017, no dividends for 2018.

Consolidated Statement of Changes in Shareholders' Equity 2017

In € thousands	Issued share capital	Share premium	Fair value reserve	Retained earnings[1]	Sum of reserves	Total shareholders' equity
Balance as at 1 January 2017	**10,898**	**398,823**	**87,864**	**-139,585**	**347,102**	**358,000**
Adjustment merger Fnidsen with VIVAT Schade	-	60,614	-	-62,238	**-1,624**	**-1,624**
Adjusted balance as at 1 January 2017	**10,898**	**459,437**	**87,864**	**-201,823**	**345,478**	**356,376**
Other comprehensive income	-	-	-12,485	-1,326	**-13,811**	**-13,811**
Net result 2017	-	-	-	4,688	**4,688**	**4,688**
Total comprehensive income 2017	**-**	**-**	**-12,485**	**3,362**	**-9,123**	**-9,123**
Capital issue	-	5,000	-	-	**5,000**	**5,000**
Total changes in equity 2017	**-**	**5,000**	**-12,485**	**3,362**	**-4,123**	**-4,123**
Balance as at 31 December 2017	**10,898**	**464,437**	**75,379**	**-198,461**	**341,355**	**352,253**

[1] Other reserves and Retained earnings have been aggregated into Retained earnings. The comparative figures are adjusted accordingly.

Statement of Fair value Reserve

In € thousands	2018	2017
Balance as at 1 January	**75,379**	**87,864**
Unrealised revaluations	-25,312	-15,921
Impairments and reversals	-44	-136
Realised gains and losses transferred to profit or loss	-8,873	-579
Income tax	6,015	4,151
Tax rate reduction adjustment	1,193	-
Total changes in equity	**-27,021**	**-12,485**
Balance as at 31 December	**48,358**	**75,379**

5.5. Consolidated Cash Flow Statement

In € thousands	2018	2017[1]
> **Cash flow from operating activities**		
Operating profit before tax	10,132	5,515
> **Adjustments for:**		
Depreciation and amortisation of non-current assets	658	2,604
Amortisation of investments	17,335	16,213
Changes in insurance liabilities	-17,229	-54,985
Changes in other provisions	-	204
Impairment charges / (reversals)	-318	399
Unrealised results on investments through profit or loss	-6,650	-4,304
> **Change in operating assets and liabilities:**		
Change in amounts due to banks	1,382	-6,642
Change in derivatives	-5	9,263
Change in other assets	31,139	-23,117
Change in other liabilities	-400	-1,335
Change in other operating activities	-1,077	7,397
Net cash flow from operating activities	**34,967**	**-48,788**
> **Cash flow from investment activities**		
Proceeds from sale of assets held for sale	7,335	-
Sale and redemption of investments and derivatives	1,198,195	874,089
Capital injection	-	5,000
Purchase of investments and derivatives	-1,238,230	-838,410
Net cash flow from investment activities	**-32,700**	**40,679**
> **Cash flow from finance activities**		
Net cash flow from financing activities	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**2,267**	**-8,109**
Cash and cash equivalents 1 January	47,642	55,751
Cash and cash equivalents as at 31 December	**49,909**	**47,642**
> **Additional disclosure with regard to cash flows from operating activities:**		
Interest income received	33,666	7,107
Dividends received	1,157	1
Interest paid	10,567	10,608

[1] Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.

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 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 31 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.

Legal Merger

On 28 October 2018 VIVAT Schadeverzekeringen NV merged with Fnidsen Beheer BV pursuant to title 2.7 of the Dutch Civil Code, with the retrospective effect, from a legal perspective, as per 1 January 2018. whereby VIVAT Schadeverzekeringen NV acquired all the assets and liabilities of Fnidsen Beheer BV by universal succession of title and Fnidsen Beheer BV ceased to exist. It is the intention that the activities of Fnidsen Beheer BV will be continued by VIVAT Schade.

The purpose of the merger was to rationalise the legal structure of VIVAT NV by allocating the agency activities relating to non-life insurance to VIVAT Schade.

The merger is considered to be a common control transaction as VIVAT Schade and Fnidsen Beheer BV were both wholly-owned subsidiaries of VIVAT NV. The accounting policies of Fnidsen NV and VIVAT Schade were uniform and the assets and the liabilities were acquired at their carrying amounts. VIVAT Schade elected to apply the pooling of interest method. As a result, the financial information of Fnidsen Beheer BV is accounted for in the financial statements of VIVAT Schade as per 1 January 2017. As a consequence of the merger Vivat Schade also became the 100% owner of Bemiddelingskantoor Nederland BV, a subsidiary previously owned by Fnidsen Beheer BV.

The assets acquired comprised the cash and cash equivalents amounting to € 1,685 thousands and receivables from group companies amounting to € 1,459 thousands (including € 824 thousands of corporate income tax receivable by Bemiddelingskantoor Nederland BV). The liabilities acquired comprised the insurance premium tax payable amounting to € 1,009 thousands and other amounts payable of € 211 thousand. VIVAT Schade has not paid any consideration for the merger. The difference between the assets and the liabilities amounting to € 1,924 thousands is recognised in the distributable reserves on the balance sheet of VIVAT Schade.

When accounting for the effects of the merger, the amount of € 491 thousands payable to Fnidsen by VIVAT Schade was eliminated from the statement of financial position. The amount of € 824 thousands of corporate income tax payable by Bemiddelingskantoor Nederland BV was reclassified from receivables from group companies to corporate income tax receivable.

The comparative figures have been adjusted as follows:

Consolidated Statement of Financial Position 31 December 2017

Before result appropriation and in € thousands	VIVAT Schade	Fnidsen	Eliminations/ reclassifications	VIVAT Schade merged
> Assets				
Intangible assets	1,044	-	-	1,044
Investments	1,567,226	-	-	1,567,226
Derivatives	18,511	-	-	18,511
Reinsurance share	89,965	-	-	89,965
Corporate income tax	10,886	-	824	11,710
Assets held for sale	7,335	-	-	7,335
Other assets	70,821	1,459	-1,315	70,965
Cash and cash equivalents	45,957	1,685	-	47,642
Total assets	**1,811,745**	**3,144**	**-491**	**1,814,398**
> Equity and liabilities				
Share capital	10,898	18	-18	10,898
Reserves	339,431	1,906	18	341,355
Total shareholders' equity	**350,329**	**1,924**	**-**	**352,253**
Subordinated debt	150,000	-	-	150,000
Insurance liabilities	1,158,670	-	-	1,158,670
Provision for employee benefits	26,240	-	-	26,240
Derivatives	7,803	-	-	7,803
Deferred tax liabilities	3,844	-	-	3,844
Amounts due to banks	15,667	-	-	15,667
Other liabilities	99,192	1,220	-491	99,921
Total equity and liabilities	**1,811,745**	**3,144**	**-491**	**1,814,398**

Consolidated Statement of Profit or Loss 2017

In € thousands	VIVAT Schade	Fnidsen	VIVAT Schade merged
> Income			
Premium income	683,227	-	683,227
Less: Reinsurance premiums	38,969	-	38,969
Net premium income	**644,258**	**-**	**644,258**
Fee and commission income	3,007	884	3,891
Fee and commission expense	-10	-	-10
Net fee and commission income	**3,017**	**884**	**3,901**
Share in result of associates	897	-	897
Investment income	15,845	2	15,847
Total income	**664,017**	**886**	**664,903**
> Expenses			
Result on derivatives	9,263	-	9,263
Technical claims and benefits	379,293	-	379,293
Acquisition costs for insurance activities	130,171	529	130,700
Staff costs	89,376	1,638	91,014
Depreciation and amortisation of non-current assets	2,604	-	2,604
Other operating expenses	34,730	655	35,385
Impairment losses	399	-	399
Other interest expenses	10,730	-	10,730
Total expenses	**656,566**	**2,822**	**659,388**
Result before tax	**7,451**	**-1,936**	**5,515**
Tax expense	1,311	-484	827
Net result continued operations for the period	**6,140**	**-1,452**	**4,688**

Adoption of the Financial Statements

The consolidated financial statements of VIVAT Schade for the year ended on 31 December 2018 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 8 April 2019. 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 2018

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 2018 and that are relevant to VIVAT Schade are disclosed below.

IFRS 15 Revenue from Contracts with Customers

This standard became effective as of 1 January 2018. IFRS 15 provides more specific guidance on the recognition of revenue on contracts with customers other than lease contracts, insurance contracts and financial instruments, which are out of scope of this standard. For further information on the implementation of IFRS 15 refer to the section 'Changes in Policies'.

Amended IFRS 4 on Insurance Contracts

The Amended IFRS 4 on Insurance Contracts is effective as of 1 January 2018 and permits an insurer to apply the temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. An entity that applies this exemption is allowed to defer the implementation of IFRS 9 until 1 January 2022, since the IASB tentatively decided to postpone the effective date of IFRS 17 to 1 January 2022.

Predominance is assessed based on a ratio calculated as the quotient of insurance related liabilities (i.e. insurance contracts, investment contracts issued in combination with insurance contracts, tax liabilities relating to insurance activities, funding and other related liabilities) and total liabilities. The assessment took place based on the figures as at 31 December 2015. If the predominance ratio is 90% or more, the entity qualifies for the ‘temporary exemption’ which offers the qualifying entity for the possibility to postpone the implementation of IFRS 9.

The predominance ratio of VIVAT Schade as at 31 December 2015 amounts to 98%, therefore VIVAT Schade qualifies for application of the temporary exemption. After that initial assessment, no reassessment of predominance ratio took place, as there were no changes in VIVAT Schade's activities:

- No adjustments in activities’ profile has been determined by the entity’s senior management as a result of external or internal changes.
- VIVAT Schade has continued to operate as an insurance company under the supervision of DNB.
- No significant new subsidiaries with different activities were acquired.

Due to the application of this exemption VIVAT Schade is required to present additional disclosures to depict the impact of the IFRS 9 classification and measurement model on VIVAT Schade's investments. These disclosures are comprised in note 29 'Financial Instruments'.

Relevant New Standards, Amended Standards and Interpretations of Existing Standards Effective Date on or after January 2019

Relevant new standards, amendments to existing standards and interpretations, effective for reporting periods beginning on or after 1 January 2019, were not early adopted by VIVAT Schade. New or amended standards that become effective on or after 1 January 2019 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 16 Leases

This standard has an effective date of 1 January 2019. According to this new standard, lessees (the users of the assets) no longer make a distinction between finance and operational lease. Consequently lessees have to recognise all assets in scope of IFRS 16 'Leases' in their statement of financial position. The main change involves the accounting of operational leases; a lessee has to recognise a right-of-use asset representing the right to use the underlying asset and a lease liability representing the obligation to make lease payments. In the statement of profit or loss a lessee recognises a depreciation charge regarding their assets in use and interest rate expense on their lease liabilities for all these leases.

As per 1 January 2019 VIVAT Schade does not have operational lease contracts that should be included in the balance sheet under IFRS 16. Therefore, there is no impact on the balance sheet, nor on the shareholders' equity per 1 January 2019.

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 November 2018 the IASB tentatively decided to postpone the IFRS 17 effective date 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.

Changes in Policies, Presentation and Estimates

Changes in Policies

IFRS 15 is a new standard that provides more specific guidance on the recognition of revenue on contracts with customers. The standard is applicable for all contracts with customers except for insurance contracts within scope of IFRS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9.

As required by IFRS 15 VIVAT Schade has applied the "five step model" approach for revenue recognition under IFRS 15. The key element of this approach is to identify the performance obligation defined in customer contract and the conditions on when the performance is actually completed. Based on the completion criteria the related revenue is recognised over time (during a period) or at a point in time.

Based on this assessment the contracts in scope of the new standard comprise primarily the contracts signed by intermediaries for handling services. These contracts are recognised under the item "Fee and Commission Income".

VIVAT Schade has implemented IFRS 15 applying the retrospective approach with practical expedients. This implies that the impact of the contracts completed before 1 January 2017 has not been assessed.

The impact of the new standard on total shareholders' equity per 1 January 2018 and 1 January 2017 is nil.

Refer to the Accounting Policies and note18 Net Fee and Commission Income for additional information.

Changes in Presentation

In 2018 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 9 '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.

Common control transactions

Common control transactions occur when all of the combining entities or businesses are controlled by the same ultimate shareholder both before and after the business combination.

These transactions are accounted for with pooling of interests. According to this method the carrying amounts of the assets and liabilities acquired, determined on the basis of the accounting policies used in the preparation of the VIVAT N.V. consolidated financial statements, are transferred to the financial statements of the acquirer and as a result no goodwill is being recognised. The difference in consideration paid and net asset value, if any, is transferred to equity. Furthermore equity will also be transferred as long as the characteristic of equity are being kept. The prior period figures are adjusted as if the combination had always taken place.

For more details refer to the section "Legal Merger" under 6.1.1 General Information.

Elimination of Group Transactions

Intra-group transactions, intra-group balances and unrealised gains and losses arising from 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 (including mortgages) and loans to banks arising from endowment mortgages issued by the insurance business. 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.

Where mortgage loans are concerned, an allowance for impairment is recognised if objective evidence exists that VIVAT Schade is not able to collect all payments in accordance with the contractual agreements. For mortgages that are individually significant, this allowance corresponds to the difference between the carrying amount and the recoverable amount. The recoverable amount equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans.

The criteria relating to impairments are applied to the entire mortgage portfolio. Individual mortgage loans with less significant amounts (and corresponding credit risk) are tested collectively for impairment.

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). Losses on mortgages are estimated on the basis of historic loss patterns and the creditworthiness of counterparties. Both estimates take into account the current economic climate in which the counterparties operate.

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.

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 applicable at the reporting date and 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

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.

Assets Held for Sale

Assets held for sale are presented separately in the consolidated statement of financial position and consist of non-current assets whose carrying amount will be recovered principally through a sale transaction and not through continuing use.

Assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Any surplus of the carrying amount over their fair value less costs is recognised as an impairment loss.

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 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 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 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.

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.

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 2018 it is set at 4% (2017: 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.

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. The change in the provision for unearned premiums, insofar as it corresponds to commissions paid, is also accounted for under acquisition costs.

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

As explained in section 6.1.1 Legal Merger, 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 Jan 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 2017. As a consequence it acquired all assets and liabilities of Fnidsen Beheer BV, including all shares of Bemiddelingskantoor Nederland BV.

There were no other acquisitions or disposals in the financial year 2018. There were no acquisitions or disposals in 2017 either.

6.3. Notes to the Consolidated Financial Statements

1. Intangible Assets

Breakdown of Intangible Assets

In € thousands	2018	2017
Software	385	1,044
Total	**385**	**1,044**

Statement of Changes in Intangible Assets 2018

In € thousands	2018	2017
	Software	**Software**
Accumulated acquisition costs	3,648	3,648
Accumulated amortisation and impairments	-3,263	-2,604
Balance as at 31 December	**385**	**1,044**
Balance as at 1 January	**1,044**	**3,648**
Amortisation capitalised costs	-459	-1,879
Amortisation purchases	-200	-725
Balance as at 31 December	**385**	**1,044**

Of the carrying amount of the software at year-end 2018, € 318 thousand (2017: €776 thousand) related to self-developed software.

2. Investments

Breakdown of Investments

In € thousands	2018	2017
Available for sale	1,555,624	1,515,667
Loans and receivables	1,110	51,559
Balance as at 31 December	**1,556,734**	**1,567,226**

Available for Sale: Listed and Unlisted

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2018	2017	2018	2017	2018	2017
Listed	-	-	1,101,289	1,301,840	**1,101,289**	**1,301,840**
Unlisted	454,335	213,827	-	-	**454,335**	**213,827**
Total	**454,335**	**213,827**	**1,101,289**	**1,301,840**	**1,555,624**	**1,515,667**

The increase of shares and similar investments in 2018 was mainly caused by the investments in Money Market funds.

Available for Sale: Statement of Changes

In € thousands	Shares and similar investments 2018	Shares and similar investments 2017	Fixed-income investments 2018	Fixed-income investments 2017	Total 2018	Total 2017
Balance as at 1 January	**213,827**	**230,230**	**1,301,840**	**1,403,450**	**1,515,667**	**1,633,680**
Purchases and advances	532,031	249,264	706,199	539,319	**1,238,230**	**788,583**
Disposals and redemptions	-284,181	-265,362	-863,528	-603,967	**-1,147,709**	**-869,329**
Revaluations	-8,456	-1,055	-18,457	-15,887	**-26,913**	**-16,942**
Impairments	-44	-135	-	-	**-44**	**-135**
Amortisation	-	-	-16,945	-16,223	**-16,945**	**-16,223**
Received Coupons	-	-	-37,529	-35,563	**-37,529**	**-35,563**
Accrued Interest	-	-	29,708	30,711	**29,708**	**30,711**
Dividend Received/Negative Distribution	1,158	885	-	-	**1,158**	**885**
Balance as at 31 December	**454,335**	**213,827**	**1,101,288**	**1,301,840**	**1,555,623**	**1,515,667**

In 2018 the next steps have been made into re-risking the portfolio by divesting fixed-income investments primarily bonds from European and other international institutions and government bonds of France.

Available for Sale: Measurement

In € thousands	Shares and similar investments 2018	Shares and similar investments 2017	Fixed-income investments 2018	Fixed-income investments 2017	Total 2018	Total 2017
(Amortised) cost	436,816	189,012	1,047,846	1,221,890	**1,484,662**	**1,410,902**
Revaluation	17,519	24,815	39,050	61,642	**56,569**	**86,457**
Accrued interest	-	-	14,393	18,308	**14,393**	**18,308**
Total	**454,335**	**213,827**	**1,101,289**	**1,301,840**	**1,555,624**	**1,515,667**

VIVAT Schade has lent some of its investments for the purpose of additional income. The carrying amount of the investments lent in a securities lending program as at 31 December 2018 amounts to € 69,434 thousand (2017: nihil). 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 2018 was € 71,899 thousand (2017: nil). 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 2018 was € 21,946 thousand (2017: € 22,288 thousand). The collateral received for derivatives are reported in Note 29 Financial Instruments.

Loans and Receivables: Investments

In € thousands	2018	2017
Private loans	1,110	51,559
Total	**1,110**	**51,559**

The decrease of private loans in 2018 was primarily caused by the repayment of a loan.

Loans and Receivables: Statement of Changes

In € thousands	Loans and receivables 2018	2017
Balance as at 1 January	**51,559**	**1,857**
Purchases and advances	–	50,000
Disposals and redemptions	-50,486	-301
Amortisation	6	11
Realised Revaluation	31	–
Other	–	-8
Balance as at 31 December	**1,110**	**51,559**

Investment Portfolio
Investments in Interest-bearing Investment Portfolio

In € thousands	2018	2017
Investments		
- Available for sale	1,101,289	1,301,840
- Loans and receivables	1,110	51,559
Interest-bearing investment portfolio	**1,102,399**	**1,353,399**

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

Breakdown of Interest-bearing Investment Portfolio (sector)

In € thousands	2018		2017	
Sovereign	864,126	79%	947,806	70%
Corporate bonds - financial sector	162,815	15%	256,726	19%
Corporate bonds - non-financial sector	70,926	6%	86,094	6%
Mortgage backed securities	3,423	0%	11,215	1%
Loans	232	0%	50,668	4%
Other	877	0%	890	0%
Total	**1,102,399**	**100%**	**1,353,399**	**100%**

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

Breakdown of Interest-bearing Investment Profile (rating)

In € thousands	2018		2017	
AAA	702,517	64%	827,221	61%
AA	115,740	11%	265,054	20%
A	113,596	10%	105,623	8%
BBB	147,220	13%	151,852	11%
< BBB	22,264	2%	2,145	0%
Not rated	1,062	0%	1,504	0%
Total	**1,102,399**	**100%**	**1,353,399**	**100%**

The interest-bearing investment portfolio held 85% of investments had an A rating or higher (year-end 2017: 89%).

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

Breakdown of Interest-bearing Investment Profile (geographic)

In € thousands	2018		2017	
Netherlands	400,908	36%	454,226	33%
Germany	273,582	25%	293,280	22%
France	66,739	6%	107,051	8%
Austria	56,115	5%	79,741	6%
Spain	55,045	5%	60,768	4%
Belgium	37,662	3%	29,914	2%
Italy	35,701	3%	37,345	3%
United Kingdom	28,311	3%	26,417	2%
Luxembourg	12,157	1%	39,482	3%
United States of America	9,855	1%	31,913	2%
Switzerland	7,609	1%	5,419	0%
Ireland	7,066	1%	7,514	1%
Other European countries	103,713	9%	171,123	13%
America	1,518	0%	8,632	1%
Oceania	6,418	1%	574	0%
Total	**1,102,399**	100%	**1,353,399**	**100%**

The interest-bearing investment portfolio of VIVAT Schade have predominantly European debtors. The German Government, Dutch Government, Austria 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 (2018: € 76,315 thousand / 2017: € 143,423 thousand).

3. Derivatives

Breakdown of Derivatives

	Positive value		Negative value		Balance	
In € thousands	2018	2017	2018	2017	2018	2017
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	23,307	18,511	5,945	7,803	**17,362**	**10,708**
Total	**23,307**	**18,511**	**5,945**	**7,803**	**17,362**	**10,708**

The derivatives position increased with € 6,654 thousand in 2018. This is due to changes in market value caused by long interest rate movements.

Statement of Changes in Derivatives

In € thousands	2018	2017
Balance as at 1 January	**10,708**	**19,971**
Purchases	–	4,983
Realised gains and losses	–	-13,567
Disposals	–	-4,983
Revaluations	6,650	4,304
Accrued Interest	4	–
Balance as at 31 December	**17,362**	**10,708**

In 2018 there were no purchases and/or disposals of derivatives. For more information about derivatives see Note 20 Results on derivatives and Note 30 Hedging.

4. Assets Held for Sale

The assets held for sale as per 31 December 2017 related to the investment in CED Holding BV. In February 2018 the sale of the associate CED Holding BV has been completed with a positive result of € 3,752 thousand.

5. Other Assets

Breakdown of other assets

In € thousands	2018	2017
Receivables from policyholders	1,375	129
Receivables from intermediaries	20,547	15,423
Receivables from reinsurers	12,896	15,382
Receivables from direct insurance	**34,818**	**30,934**
Receivables from group companies	4,348	17,632
Reimbursement rights	19,762	21,459
Accrued interest	–	-107
Other accrued assets	1,413	1,047
Accrued assets	**1,413**	**940**
Total	**60,341**	**70,965**

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

To improve insight, the amount of reimbursement right has been presented separately in the breakdown of the other assets. In 2017 this was included under receivables from group companies.

6. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

In € thousands	2018	2017
Short-term bank balances	49,909	47,642
Total	**49,909**	**47,642**

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.

7. Equity

Breakdown of Equity

In € thousands	2018	2017
Equity attributable to the shareholder	336,575	352,253
Total	**336,575**	**352,253**

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.

Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.

8. Subordinated Debt

Breakdown of subordinated debt

In € thousands	2018	2017
Private loans	150,000	150,000
Total	**150,000**	**150,000**

Subordinated private loans

In € thousands	Interest	Maturity	2018	2017
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.

9. Insurance Liabilities and Reinsurance Share

In 2018, the total amount of gross reserves is € 1,134,709 thousand (2017: € 1,158,670 thousand). Net of the reinsurance share of € 83,233 thousand (2017: € 89,965 thousand), the net amount at year-end 2018 is € 1,051,476 thousand (2017: € 1,068,705 thousand).

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

	Gross		Reinsurance	
In € thousands	2018	2017	2018	2017
Current risks	23,152	23,438	-	-
Unearned premiums	54,801	64,315	995	902
Claims payable	834,371	816,462	64,614	64,491
Claims incurred but not reported	222,385	254,455	17,624	24,572
Total	**1,134,709**	**1,158,670**	**83,233**	**89,965**

The provision unearned premiums, with regard to the portfolio authorized agents, has been calculated based on more detailed information. This is the main cause for the decrease of the (gross) technical provision with € 9,514 thousand compared to 2017.

The breakdown per line of business is included below.

Breakdown Net Reserve

	2018			2017		
In € thousands	Net reserve	% Net reserve	% Gross earned premium	Net reserve	% Net reserve	% Gross earned premium
Fire	119,238	11%	32%	128,983	12%	32%
Accident and health	387,639	37%	15%	383,200	36%	16%
Motor	365,682	35%	31%	376,498	35%	30%
Transport	42,197	4%	6%	38,114	4%	5%
General liability	126,910	12%	8%	132,196	12%	8%
Other	9,810	1%	8%	9,714	1%	9%
Total	**1,051,476**	**100%**	**100%**	**1,068,705**	**100%**	**100%**

Statement of Changes in Provision for Claims Payable

	Gross		Reinsurance	
In € thousands	2018	2017	2018	2017
Balance as at 1 January	**816,462**	**880,178**	**64,491**	**87,318**
Reclassification	-	1	-	-
Reported claims, current period	408,978	352,847	24,760	15,818
Reported claims, prior periods	50,293	20,109	1,109	-6,167
Claims paid, current period	-229,110	-186,640	-12,933	-10,977
Claims paid, prior periods	-229,771	-247,994	-14,979	-19,500
Interest added	17,519	-2,039	2,166	-2,001
Balance as at 31 December	**834,371**	**816,462**	**64,614**	**64,491**

The increase of claims payable can be explained by current market interest movements in the disability portfolio, impact of underlying portfolio (increase in duration) and interest accrual.

The provision for claims payable include claims handling expenses of € 34,607 thousand at year end (2017: € 34,165 thousand). The estimation of the provision internal claim handling expenses has improved in 2018 (based on dynamic IBNR) which resulted in a decrease of € 2,200 thousand.

Statement of Changes in Provision for Claims Incurred but not Reported

	Gross		Reinsurance	
In € thousands	2018	2017	2018	2017
Balance as at 1 January	**254,455**	**245,680**	**24,572**	**30,724**
Additions during the year	78,742	91,043	1,668	2,152
Added to the results	-110,812	-82,268	-8,616	-8,304
Balance as at 31 December	**222,385**	**254,455**	**17,624**	**24,572**

Changes in IBNR include the following changes:

- A positive run off result in 2018, in particular Fire.
- A release of € 4,100 thousand following a refinement in the IBNR for Indirect business.
- As per 31 December 2018 the reinsurers share in the IBNR co-insurance liability has been re-estimated to nil. This resulted in a change in estimation of € 5,400 thousand.
- As a result of the alignment of the calculation method of the provisions for Asbestos under IFRS with those under Solvency II, the IBNR decreased with € 2,300 thousand.

Development of Ultimate Loss Total

In € thousands	Accident Year							
Calendar year	≤ 2012	2013	2014	2015	2016	2017	2018	Total
2012	2,211,537	-	-	-	-	-	-	
2013	2,218,063	538,767	-	-	-	-	-	
2014	2,232,860	561,387	575,122	-	-	-	-	
2015	2,256,847	560,167	529,713	453,158	-	-	-	
2016	2,258,199	557,278	529,677	464,743	459,005	-	-	
2017	2,232,134	549,905	526,570	449,909	447,671	440,719	-	
2018	2,236,336	551,638	527,214	449,862	433,613	413,890	478,633	
Total development	**-24,799**	**-12,871**	**47,908**	**3,296**	**25,392**	**26,829**	**-**	**65,755**
Run-off gain (loss) 2018	**-4,202**	**-1,733**	**-644**	**47**	**14,058**	**26,829**	**-**	**34,355**

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.

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

In € thousands	2018	2017
Insurance liabilities before LAT	1,051,476	1,068,705
IFRS LAT reserve	917,041	917,367

There is no deficit in 2018 and 2017.

10. Provision for Employee Benefits

Breakdown of Provision for Employee Benefits

In € thousands	2018	2017
Pension commitments	24,552	26,240
Total	**24,552**	26,240

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 is also responsible for 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 several 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 € 0.4 million in 2019 (2018: € 0.5 million). Obligations for additional indexation rights are included in the provision and will be released after payment to the insurer.

The main aspects of the defined benefit schemes are explained below.

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 but 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, € 8.5 million has been included in the provision for pensions for these pension schemes (2017: € 8.8 million). In 2019, VIVAT Schade's contribution to these defined benefit schemes is expected to amount to € 0.2 million (2018: € 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 € 12.3 million (2017: € 13.6 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 € 0.2 million in 2019 (2018: € 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 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. Except for the NHL and Helvetia pension schemes, these 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. In all of these pension schemes no more pension rights, other than indexation, are accrued.

After offsetting the fair value of the investments, € 3.8 million (2017: € 3.8 million) has been included in the provision for pensions for these pension schemes. In 2019, VIVAT Schade's contribution to the other defined benefit schemes is expected to amount to € 0.1 million (2018: € 0.1 million).

Overview Pension Commitments

Breakdown of Pension Commitments

In € thousands	2018	2017
Present value of defined benefit obligations	27,738	29,507
Less: Fair value of plan assets	-3,347	-3,348
Effect of asset ceiling	161	80
Present value of the net liabilities	**24,552**	**26,240**

Change in Present Value of Defined Benefit Obligations

In € thousands	2018	2017
Present value as at 1 January	**29,507**	**29,031**
Increase and interest accrual through profit or loss	510	486
Actuarial gains or losses due to changes in financial assumptions through Other Comprehensive Income	-198	941
Actuarial gains or losses due to changes in demographic assumptions through Other Comprehensive Income	-313	39
Actuarial gains or losses due to experience adjustments through Other Comprehensive Income	-990	-205
Benefits paid	-777	-785
Present value as at 31 December	**27,738**	**29,507**

Change in Fair Value of the Plan Assets

In € thousands	2018	2017
Fair value as at 1 January	**3,348**	**2,995**
Investment income through profit and loss	58	50
Actuarial gains or losses due to changes in financial assumptions through Other Comprehensive Income	-19	-23
Actuarial gains or losses due to changes in demographic assumptions through Other Comprehensive Income	-24	-1
Actuarial gains or losses due to experience adjustments through Other Comprehensive Income	88	448
Investment income	**103**	**474**
Premiums	674	663
Benefits paid	-778	-785
Fair value as at 31 December	**3,347**	**3,348**

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.

Breakdown of Fair Value of the Plan Assets

In € thousands	2018	2017
Cash and cash equivalents	596	-
Insurance contract	2,751	3,348
Balance as at 31 December	**3,347**	**3,348**

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	2018	2017
Balance as at 1 January	**80**	**-**
Interest on the effect of asset ceiling	1	-
Remeasurements on the effect of asset ceiling	80	80
Balance as at 31 December	**161**	**80**

Statement of Other Comprehensive Income

In € thousands	2018	2017
Balance as at 1 January	-648	1,570
Actuarial gains or losses at the expense of Other Comprehensive Income pension commitments	2,264	-782
Investment income for the benefit or at the expense of Other Comprehensive Income	-33	460
Additional transfer from Defined Benefit Obligation	-	230
Deferred taxes	-498	184
Other	-	-2,310
Balance as at 31 December	**1,085**	**-648**

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	2018	2017
Experience adjustments as a % of defined benefit obligation	-4%	-1%
Experience adjustments as a % of investments	4%	14%

The Main Actuarial Parameters at Year-end

In percentages	2018	2017
Discount rate	1.80%	1.75%
Expected salary increase	2.26%	2.32%
Price inflation	2.23%	2.20%

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%

Sensitivity Present Value of Pension Obligations 2017

	31 December 2017	
	Change in € millions	Change in %
Discount rate 1.25% (-0.5%)	3	10%
Discount rate 2.25% (+0.5%)	-3	-9%

11. Deferred Tax

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**

Origin of Deferred Tax 2017

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	-12,528	1,689	4,151	-6,688
Derivatives	-4,638	2,316	-	-2,322
Insurance contracts	2,852	52	-	2,904
Provision for employee benefits	323	1,497	442	2,262
Total	**-13,991**	**5,554**	**4,593**	**-3,844**

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 is € 1,268 thousand (gain) of which € 15 thousand via the profit or loss account as tax gain and € 1,253 thousand via equity.

The total amount of change in deferred tax through profit or loss is - € 5,943. This amount is due to temporary differences (€ 5,958) and to the impact of change in corporate income tax rate (€ 15). See also note 27.

12. Amounts due to Banks

Breakdown of Amounts Due to Banks

In € thousands	2018	2017
Due on demand	17,049	15,667
Total	**17,049**	**15,667**

The amount of € 17 million (2017: € 15.7 million) due on demand relates to cash collateral.

13. Other Liabilities

Breakdown of Other Liabilities

In € thousands	2018	2017
Debts to group companies	37,883	45,881
Debts in relation to direct insurance	14,071	8,300
Debt to reinsurers	23,703	25,812
Other taxes	5,832	5,952
Other liabilities	17,976	14,197
Benefits to be Paid	-3	-313
Accrued interest	59	92
Total	**99,521**	**99,921**

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

14. Guarantees and Commitments

Netherlands Reinsurance Company for Losses from Terrorism

In 2019, VIVAT Schade will take a 4.43 % share in the Non-life cluster (2018: 3.99%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2019, the guarantee will be € 3 million (one third of total guarantee of € 9 million) and total premiums will amount to € 0.2 million (2018: € 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, VIVAT Schade's compliance with the commission regulation is subject to assessments. At present this could result in a formal decision qualifying VIVAT Schade's compliance. The final outcome of the assessment by the regulator is uncertain.

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.

15. 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

	VIVAT		Affiliates		Total	
In € thousands	2018	2017	2018	2017	2018	2017
> Positions						
Corporate income tax receivable	-	11,710	-	-	**-**	**11,710**
Other assets (receivables from group companies)	4,348	11,391	-	-	**4,348**	**11,391**
Other assets (reimbursement right)	-	-	19,762	21,459	**19,762**	**21,459**
Subordinated private loans	150,000	150,000	-	-	**150,000**	**150,000**
Corporate income tax payable	2,482	-	-	-	**2,482**	**-**
Other liabilities (liabilities to group companies)	11,578	15,863	26,305	12,759	**37,883**	**28,622**
> Transactions						
Net premium	143	161	105	175	**248**	**336**
Claims paid	-	-	20	31	**20**	**31**
Interest income	1	1	-	-	**1**	**1**
Interest expense	9,944	9,961	5	4	**9,949**	**9,965**
Service fees expenses	-	-	1,077	1,100	**1,077**	**1,100**
Staff costs	45,914	46,677	-	-	**45,914**	**46,677**
Other operating expenses	26,449	29,166	-	-	**26,449**	**29,166**

VIVAT Schade has 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 2018 (31 December 2017: 7). The Supervisory Board comprised five members as at 31 December 2018 (31 December 2017: 5).

Actual Remuneration (former) Members of the Executive Board

The following table provides a breakdown of the total remuneration of the Executive Board for the year 2017 and 2018, including former and existing key management.

Breakdown of Remuneration (former) Members of the Executive Board

In € thousands	2018	2017
Short-term employee benefits	4,372	4,691
Post-employment benefits	138	150
Other long-term benefits	3	-
Total	**4,513**	**4,841**

The other long-term benefits relate to a retention scheme; 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 2018 (and 2017) and/or granted to members of the Executive Board during 2018.

Actual Remuneration Members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members in 2017 and 2018 (excluding 21% VAT).

Breakdown of Remuneration Members of the Supervisory Board

In € thousands	2018	2017
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 2018 (and 2017) and/or granted to members of the Supervisory Board during 2018.

16. Events after the Reporting Date

There are no events after reporting date which should be disclosed in the financial statements.

17. Net Premium Income

Premium income consists of insurance premiums net of reinsurance premiums.

Breakdown of net premium income

	Gross		Reinsurance		Total	
In € thousands	2018	2017	2018	2017	2018	2017
Fire	228,091	214,970	-15,969	-10,473	**212,122**	**204,497**
Accident and health	110,545	110,630	-5,045	-5,304	**105,500**	**105,326**
Motor vehicle	221,354	205,702	-1,995	-1,804	**219,359**	**203,898**
Transport	41,089	35,948	-1,378	-1,199	**39,711**	**34,749**
General liability	56,795	53,530	-1,373	-1,524	**55,422**	**52,006**
Other segments	65,548	62,447	-18,562	-18,665	**46,986**	**43,782**
Total	**723,422**	**683,227**	**-44,322**	**-38,969**	**679,100**	**644,258**

Premium income increased as a result of growth in the authorized agents portfolio and a release from the unearned premium reserve linked to authorised agents (€ 19 million) due to an improvement of in depth portfolio data.

18. Net Fee and Commission Income

Breakdown of net fee and commission income

In € thousands	2018	2017
Fee and commission income:		
- Insurance agency activities	1,855	3,891
Total fee and commission income:	**1,855**	**3,891**
Fee and commission expense	-	-10
Total	**1,855**	**3,901**

19. Investment Income

Breakdown of investment income

In € thousands	2018	2017
Fair value through profit or loss	2,370	2,361
Available for sale	19,005	13,454
Loans and receivables	21	32
Total	**21,396**	**15,847**

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**

Interest income from Fair value through profit or loss consists of € 2,340 thousand interest income from derivatives.

Realised revaluations on AFS investments are higher in 2018 compared to previous year. This is mainly caused by the sale of the investments in CED Holding BV (€ 4.3 million).

Breakdown of investment income 2017

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Interest	2,365	13,759	32	**16,156**
Dividend	-	-884	-	**-884**
Total interest and dividends	**2,365**	**12,875**	**32**	**15,272**
Realised revaluations	-8	579	-	**571**
Unrealised revaluations	4	-	-	**4**
Total revaluations	**-4**	**579**	**-**	**575**
Total	**2,361**	**13,454**	**32**	**15,847**

20. Result on Derivatives

The result on derivatives in 2018 (€ 6,650 thousand) are a result of movement in interest (2017: € -9,263 thousand).

21. Technical Claims and Benefits

Technical claims and benefits include claims paid, direct claim handling costs, 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	2018	2017	2018	2017	2018	2017
Claims paid	458,881	434,634	-27,913	-30,477	430,968	404,157
Change in provision for reported claims	16,811	-62,216	-123	22,425	16,688	-39,791
Change in provision for claims incurred but not reported	-32,070	8,775	6,948	6,152	-25,122	14,927
Total	**443,622**	**381,193**	**-21,088**	**-1,900**	**422,534**	**379,293**

Higher claims originating from the January storm (€ 20 million after reinsurance) influenced the technical claims in 2018. The amount of € 15 million is after taxation as we have mentioned in the board report.

The change in provision for claims incurred but not reported can mainly be explained by a positive run off result in 2018 (€ 24 million), in particular Fire. The calculations per the end of 2017 had been based among others on the claim history previous years. It appeared in 2018 that for the accident year 2017 the number of claims as well as the claim amount developed more favorable.

22. Acquisition Costs for Insurance Activities

Breakdown of Acquisition Costs for Insurance Activities

In € thousands	2018	2017
Acquisition costs	160,931	137,608
Reinsurance	-6,786	-6,908
Total	**154,145**	**130,700**

Acquisition costs mainly increased as a result of growth in the authorized agents portfolio (higher premium income) and a release from the unearned premium reserve linked to authorised agents due to an improvement of in depth portfolio data.

23. Staff Costs

Breakdown of Staff Costs

In € thousands	2018	2017
Salaries	39,573	45,040
Pension costs	6,790	10,058
Social security contributions	4,976	6,510
Other staff costs	33,731	29,406
Total	**85,070**	**91,014**

The decrease in the staff cost is partly a result of less number of the internal and external FTE's, release of the performance bonus 2017 partly offset by the salary increase as replacement for the variable remuneration in the CLA and partly due to staff costs retrospective to 2016 regarding Volmachtkantoor Nederland BV regonised in 2017.

Other staff costs consists mainly of staff costs recharged by VIVAT NV. A reclassification has been made in the comparative figures from the category other staff costs to salaries, pension costs and social security contributions.

In numbers	2018	2017
Number of internal FTEs	711	717

24. Other Operating Expenses

Breakdown of Other Operating Expenses

In € thousands	2018	2017[1]
IT systems	10,195	7,517
Housing	3,322	3,366
Marketing and public relations	6,094	8,700
External advisors	3,566	3,222
Other costs	6,686	12,580
Total	**29,863**	**35,385**

[1] A reclassification has been made in the comparative figures for presentation purposes.

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

25. Impairment Losses (Reversals)

Breakdown of Impairment Losses / Reversals by Class of Asset

	Impairments		Reversals		Total	
In € thousands	2018	2017	2018	2017	2018	2017
> Through profit or loss						
Investments	44	136	–	–	**44**	**136**
Other debts	167	301	529	38	**-362**	**263**
Total through profit or loss	**211**	**437**	**529**	**38**	**-318**	**399**

26. Other Interest Expenses

Breakdown of Other Interest Expenses

In € thousands	2018	2017
Private loans	9,944	9,961
Interest deposits	578	629
Other interest and investment expenses	147	140
Total	**10,669**	**10,730**

27. Income Tax

Breakdown of Tax Expense

In € thousands	2018	2017
In financial year	-5,448	6,710
Other items	–	-329
Corporate income tax due	**-5,448**	**6,381**
Due to temporary differences	5,958	-5,554
Due to change in income tax rate with regard to deferred tax	-15	–
Deferred tax (including tax rate change)	**5,943**	**-5,554**
Total	**495**	**827**

The corporate income taxes are irrevocable for the years up to and including 2016.

Reconciliation Between the Statutory and Effective Tax Rate

In € thousands	2018	2017
Statutory income tax rate	25.0%	25.0%
Result before tax	10,132	5,515
Statutory corporate income tax amount	**2,533**	**1,379**
Effect of participation exemption	-2,023	-223
Due to change in income tax rate with regard to deferred tax	-15	–
Other items	–	-329
Total	**495**	**827**
Effective tax rate	4.9%	15.0%

The effective tax rate 4.9% 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, tax exempt and a prior year adjustment. For further disclosures about deferred tax, see note 11.

28. Income tax effects relating to Other Comprehensive Income

	Before tax amount		Tax (expense) benefit		Net of tax amount	
In € thousands	2018	2017	2018	2017	2018	2017
Remeasurement effects of defined benefit pension plan	2,231	-1,768	-498	442	**1,733**	**-1,326**
Change in other reserves	-27	-	-	-	**-27**	**-**
Unrealised revaluations	-25,312	-15,921	6,064	3,972	**-19,248**	**-11,949**
Impairments and reversals	-44	-136	11	34	**-33**	**-102**
Realised gains and losses through profit or loss	-8,873	-579	1,133	145	**-7,740**	**-434**
Total comprehensive income	**-32,025**	**-18,404**	**6,710**	**4,593**	**-25,315**	**-13,811**

The unrealised revaluations includes € 5.9 million that is tax exempt. The relating tax benefit includes a gain of € 1.3 million due to tax rate differences. The realised gains and losses includes tax exempt gains on the sale of shares CED € 4.3 million.

29. 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 2018	Carrying amount 2018	Fair value 2017[1]	Carrying amount 2017
Financial assets				
Investments				
- Available for sale	1,555,624	1,555,624	1,515,667	1,515,667
- Loans and receivables	1,115	1,110	51,586	51,559
Derivatives	23,307	23,307	18,511	18,511
Other assets	60,726	60,726	70,965	70,965
Cash and cash equivalents	49,909	49,909	47,642	47,642
Total financial assets	**1,690,681**	**1,690,676**	**1,704,371**	**1,704,344**
Financial liabilities				
Subordinated debt	155,351	150,000	156,667	150,000
Derivatives	5,945	5,945	7,803	7,803
Amounts due to banks	17,049	17,049	15,667	15,667
Other liabilities	102,003	102,003	99,921	99,921
Total financial liabilities	**280,348**	**274,997**	**280,058**	**273,391**

[1] Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures (fair value and carrying amount) have been adjusted.

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.

Notes to the 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. 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 2018

		Fair value			
In € thousands	Carrying amount	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 advances	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**

In 2018 the fair value of subordinated debt is based on quoted prices in an active market when available (comparative figures have been adjusted).

Fair value hierarchy 2017

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total[1]
> Financial assets measured at fair value					
Investments available for sale	1,515,667	1,458,885	14,413	42,369	**1,515,667**
Derivatives	18,511	-	18,511	-	**18,511**
> Financial assets not measured at fair value					
Investments loans and advances	51,559	-	51,586	-	**51,586**
Other assets	70,965	-	-	-	**70,965**
Cash and cash equivalents	47,642	-	-	-	**47,642**
> Financial liabilities measured at fair value					
Derivatives	7,803	-	7,803	-	**7,803**
> Financial liabilities not measured at fair value					
Subordinated debts	150,000	-	-	156,667	**156,667**
Amounts due to banks	15,667	-	-	-	**15,667**
Other liabilities	99,921	-	-	-	**99,921**

[1] Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted.

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

Change 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	-

Change in Level 3 Financial Instruments in 2017

In € thousands	Available for sale
Balance as at 1 January	51,088
Unrealised gains or losses recognised in other comprehensive income	-272
Sale/settlements	-6,687
Other	-3
Transfer from level 3	-1,757
Balance as at 31 December	**42,369**
Total gains and losses included in profit or loss	-

Breakdown of Level 3 Financial Instruments

In € thousands	2018	2017
Bonds issued by financial institutions	4,900	6,226
Equities	30,316	36,143
Total	**35,216**	**42,369**

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.

Sensitivity as a result of a shock applied

In € millions	Impact on shareholders' equity
Equity securities	
Equities +10%	3
Equities -10%	-3

Impairments of Financial Instruments by Category

	Level 1		Level 2		Level 3		Total	
In € thousands	2018	2017	2018	2017	2018	2017	2018	2017
Equities	44	135	-	-	-	-	**44**	**135**
Total	**44**	**135**	**-**	**-**	**-**	**-**	**44**	**135**

The table below shows movements in the financial assets and liabilities measured at fair value between the levels.

Reclassification Between Categories 2018

In € thousands	to Level 1	to Level 2	to Level 3	Total
From:				
Based on observable market data (Level 2)	-	-	2,722	**2,722**

Reclassification Between Levels 1, 2 and 3

Shift Between Levels 2 and 3

At year-end 2018, € 2,722 thousand (2017: € 0 thousand) was transferred from level 2 to level 3 for investments that were significantly less traded. Therefore, available prices for these investments are largely supported and validated using market inputs resulting in an increase in measurement uncertainty.

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 2018

In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Related amounts not netted in the 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**	**–**	**–**

Financial Assets and Liabilities 2017

In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Related amounts not netted in the carrying amount: Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	18,511	–	18,511	18,557	–	–	-46
Total financial assets	**18,511**	**–**	**18,511**	**18,557**	**–**	**–**	**-46**
Financial liabilities							
Derivatives	7,803	–	7,803	7,803	–		
Total financial liabilities	**7,803**	**–**	**7,803**	**7,803**	**–**	**–**	**–**

Management of Past Due and Impaired Assets

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

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**

Financial Instruments - Impairments 2017

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[1]
Investments	1,514,281	-	2,431	-1,045	**1,515,667**
Loans and receivables	51,559	-	-	-	**51,559**
Other financial assets	71,939	2,851	-	-3,825	**70,965**
Total	**1,637,635**	**2,851**	**2,431**	**-4,870**	**1,638,191**

1 Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted.

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 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**

Liquidity calendar financial liabilities 2017

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	-	-	-	-	-20,781	**-20,781**
Amounts due to banks	-15,667	-	-	-	-	**-15,667**
Total	**-15,667**	**-**	**-**	**-**	**-170,781**	**-186,448**

The table below shows the undiscounted cash flows from all derivative contracts by maturity date.

Liquidity calendar derivatives 2018

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	-5,945	-	**-5,945**
Total	**-**	**-**	**-**	**-5,945**	**-**	**-5,945**

Liquidity calendar derivatives 2017

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	-7,803	-	**-7,803**
Total	**-**	**-**	**-**	**-7,803**	**-**	**-7,803**

The table regarding the cash flows from insurance business can be found in chapter 7.6.3.1.

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

Change in Fair Value of Investments SPPI and non-SPPI

In € thousands	Fair value through profit or loss: Designated		Available for sale		Loans and receivables		Total	
	SPPI[1]	non-SPPI	SPPI[2]	non-SPPI	SPPI	non-SPPI	SPPI	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 the section 3 ‘Derivatives in the notes to the consolidated financial statement’.

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 the section 5 ‘Other assets in the notes to the consolidated financial statement’.

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)

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:

- 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 Lycée Francais de la Haye is risk to French government (AA rated) and therefore considered to be investment grade. Apart from that, the loan does not have a subordinated character compared to other liabilities of these entities. As a result, these instruments are 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.

30. 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 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**

Derivatives for Hedging Purposes 2017

	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**	18,511	-7,803
Total	**-**	**400,000**	**298,000**	**698,000**	**18,511**	**-7,803**

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.

31. 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, Assen	Brokerage	100
Bemiddelingskantoor Nederland BV	The Netherlands, Assen	Brokerage	100

7. Managing Risks

7.1. Risk Management System

7.1.1. General

VIVAT Schade has established a Risk Management System 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 organizational, 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 (VRC), 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 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 a Product Line or Functional Line is responsible for day-to-day operations within the Risk Management System, schedules the 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.

For all components within the ICF, standards include applicable minimum requirements. All components of VIVAT Schade are scored 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 Vision and 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 Schade 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 recognized 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.

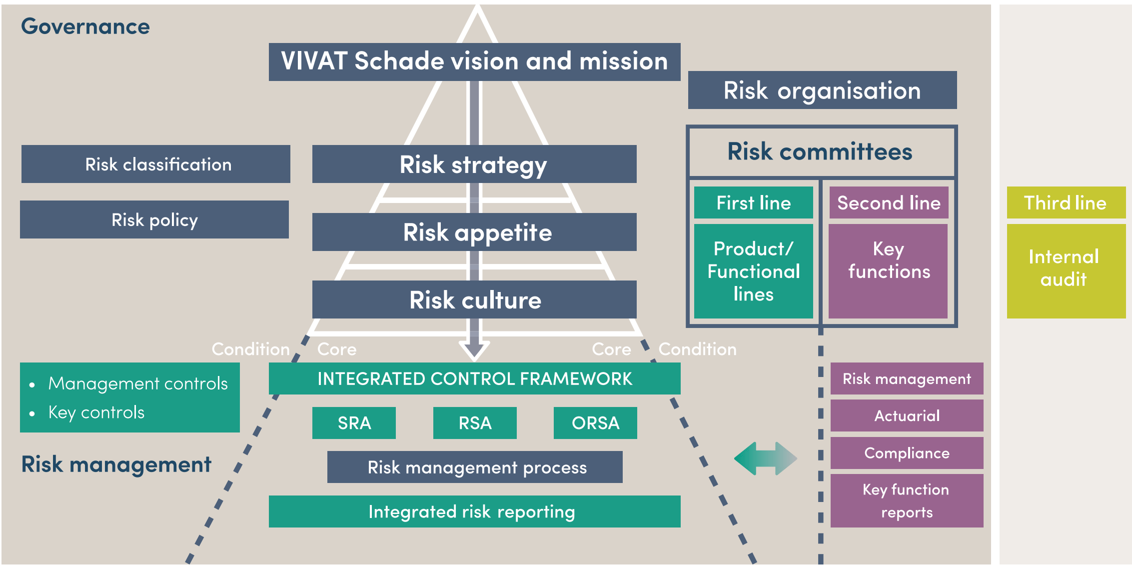

Figure 7: Risk Management

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 achieve our 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 vision and 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 Appetite is subsequently translated into practical risk objectives.

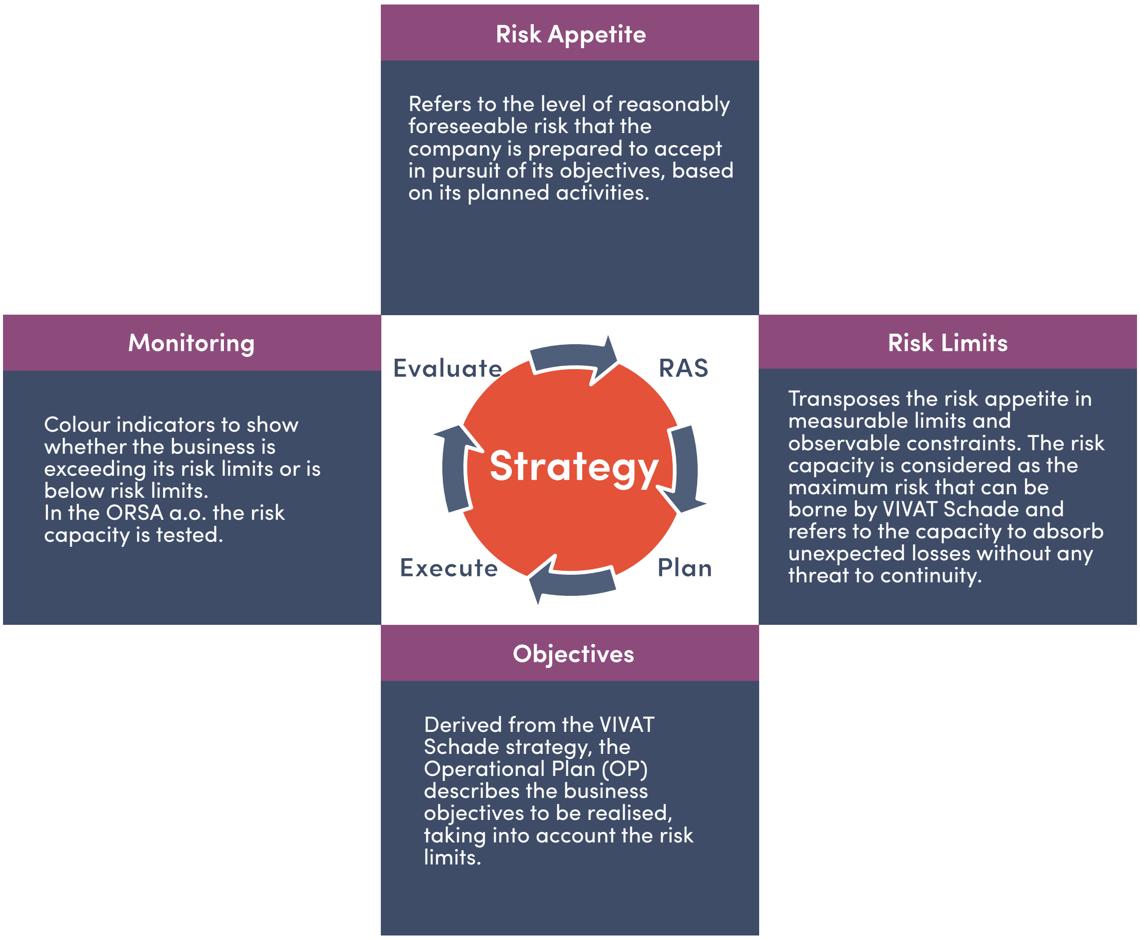

Figure 8: Risk Appetite framework

Risk Appetite is defined at VIVAT level, including VIVAT Schade. Subsequently it is 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.

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 organizational 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 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.

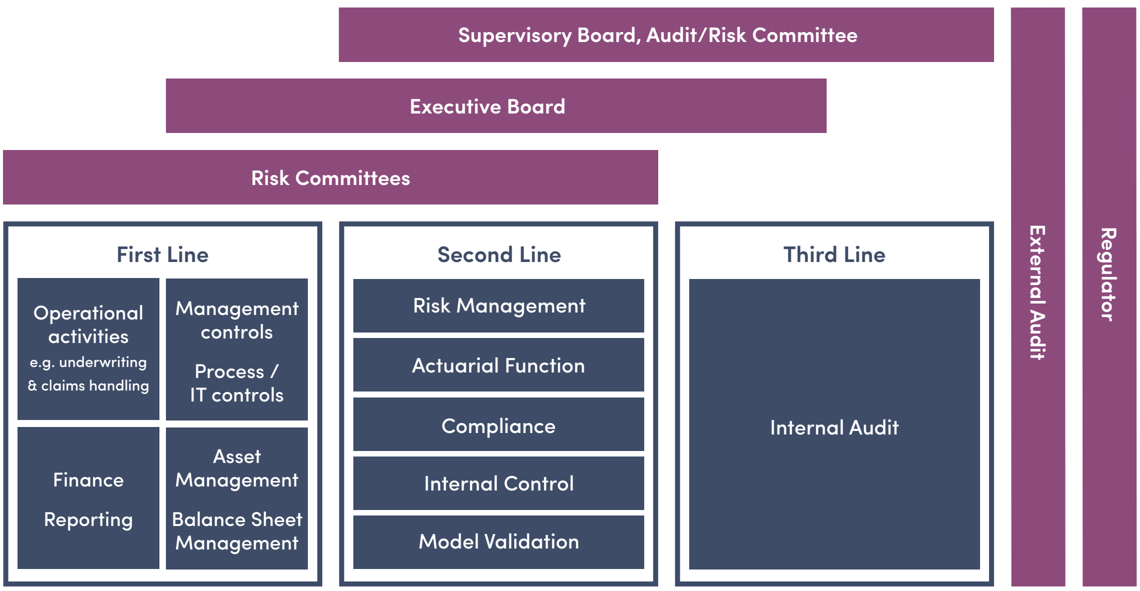

Figure 9: Three Lines of Defence

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. A function as intended in Solvency II is not a person or a department but an internal capacity to perform certain tasks and responsibilities. The Key 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 comprehensive report on the major financial and non-financial risks within VIVAT. It consists of reports from the three second line Key Functions (Risk Management Function, Actuarial Function and Compliance Function) and shows both the development and the outlook with regard to actuarial, financial, model and non-financial risks, and in addition strategic developments. The ERM Report presents both new and progress on existing high risk findings and/or 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. It contains a second line opinion on the development of the various risks, the dependency, and the impact on OP, solvency and strategy. 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 and Compliance Risk. The tables below show a breakdown of the SCR of VIVAT Schade.

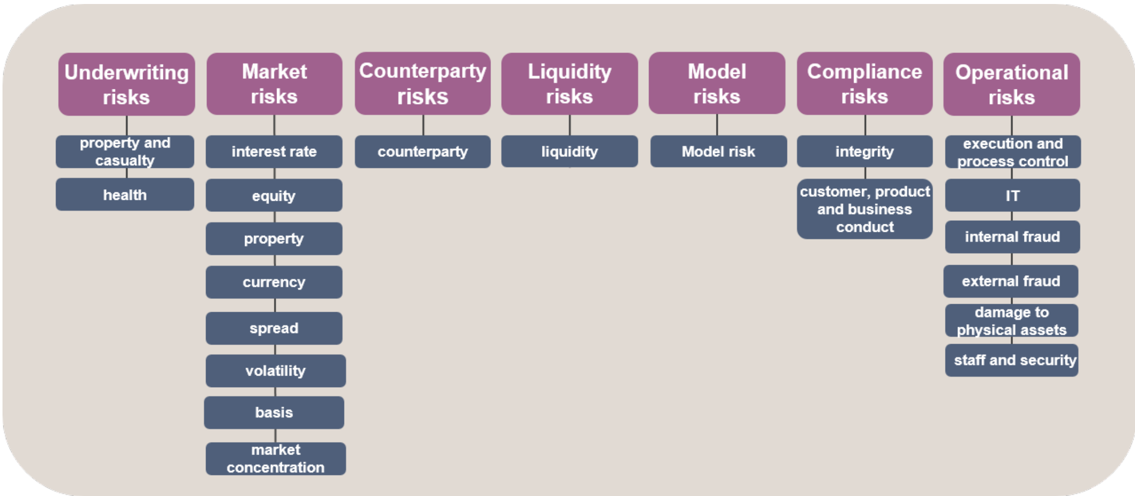

Figure 10: Risk classification

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

The effectiveness of Process (key) Controls within VIVAT Schade is scheduled each quarter for independent testing by first line management. The second line (internal control) subsequently performs 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.

After the implementation of the Integrated Control Framework (ICF) and GRC tooling in the period 2015-2017, the ICF was further strengthened in 2018 by focus on the governance, structural improvement of process design and increased analysis and reporting possibilities in GRC tooling. The governance was strengthened by installing an Operational Risk and Compliance Committee at VIVAT level. Regarding process design initiatives were started to facilitate and strengthen process ownership for solid process and control design in which all risk and regulatory elements are incorporated. Also, good progress was made in 2018 in order to incorporate automated controls within the ICF. Practically all processes and controls for P&C were reconsidered and updated. At the end of 2018 a start was made to also rationalise and strengthen the monitoring controls within the actuarial departments of Finance which will further continue in 2019.

Due to the update of the methodology of assessing management controls (MCSA) in 2018, the standards for achieving a specific maturity level have been stricter in comparison to the MCSA 2017. Despite the stricter assessment, overall the product line and the functional lines have been able to further improve or at least maintain comparable maturity levels. Amongst others an increase was measured in maturity on model management in the Finance and Risk domains, due to pro-active communication with second line concerning the model inventory list, model changes and follow-up on findings.

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 ALM Study.

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 recovery 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, ALM study, Risk Dashboards, ORSA, Recovery 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 a higher level of risk management and governance. Pillar 3 establishes higher 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.

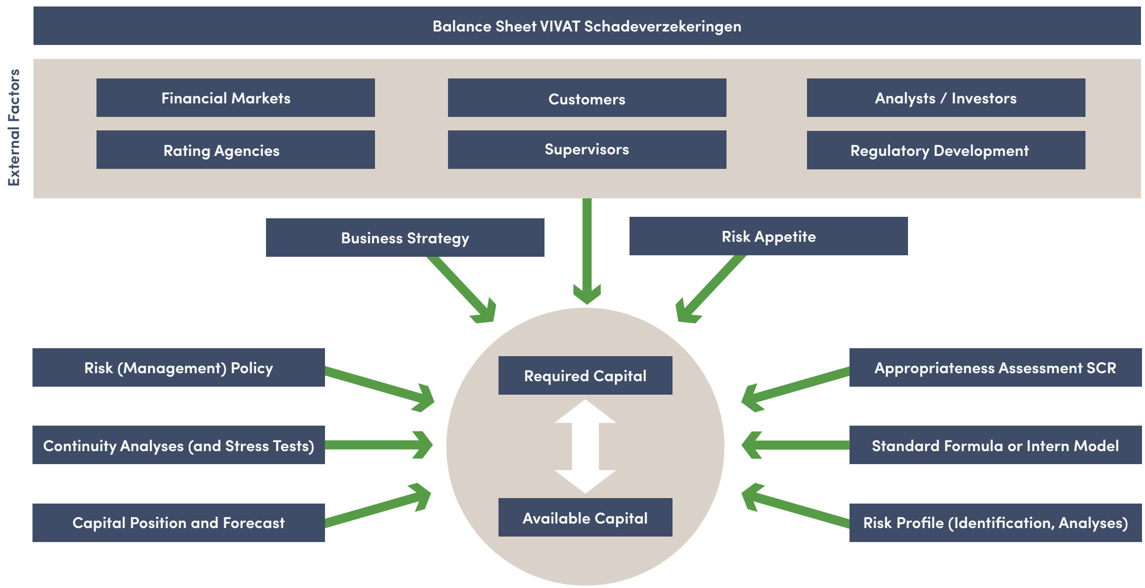

Figure 11: ORSA Process

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. 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 Recovery 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 supports the strong capital position going-forward, while reducing spread volatility by moving to an asset mix more in line with VA reference portfolio.

7.4.5. Recovery Plan

VIVAT, including VIVAT Schade, is required to establish a recovery plan, which describes the procedures 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 or VIVAT Schade in its current form. The Recovery Plan is updated annually. The Recovery 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 management actions are evaluated in a scenario analysis. The annual update of the Recovery Plan is performed in conjunction with the ORSA process and its results are shared with the regulator.

7.4.6. Capital Position

The supervisory authorities EIOPA and DNB have produced several public guidance notes on the interpretation of Solvency II and 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 monthly basis. 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 2018. The yield curve used as at 31 December 2018, 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 2018 is 3.6%. As the UFR for the euro was 4.2% in 2017 and the annual change of the UFR is limited to 15 basis points according to the methodology, the applicable UFR is 4.05% in 2018. That UFR was for the first time applicable for the calculation of the risk-free interest rates of 1 January 2018.

When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Capital Requirement (SCR). VIVAT Schade has examined whether, following a loss of the same scale as the (pre-tax) SCR shock, future fiscal profits will be sufficient to be able to recover, partially or fully, the change in deferred tax asset created by that loss. The Loss Absorbing Capacity of Deferred Taxes in the SCR equals the net DTL-position.

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	2018	2017
Shareholders' equity	337	350
Reconciliation IFRS-Solvency II	72	63
Subordinated liabilities	155	157
Total available own funds	**564**	**570**
Tiering restriction	–	–
Total eligible own funds	**564**	**570**

The following items result in differences between IFRS shareholders' equity and Solvency II own funds.

Reconciliation IFRS-Solvency II

The reconciliation encompasses the following significant differences in measurement under Solvency II and under IFRS:

- Technical provisions – Under Solvency II the technical provisions are measured using Solvency II parameters, taking into account current market estimates. Under IFRS a liability adequacy test on the technical provision is performed, if the carrying amount of the technical provision is inadequate, the provision is increased. With respect to economic parameters used, there are differences regarding the interest rate curve and the cost of capital. The difference in the interest rate curve development, due to the VA development that is only applicable for Solvency II, is a main driver for the development of the reconciliation of IFRS and Solvency II.
- 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.

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.

Breakdown tiering

	Tier 1		Tier 2	Tier 3	Total
In € millions	Unrestricted	Restricted			
Eligible own funds to meet the SCR 2018	409	–	155	–	**564**
Eligible own funds to meet the SCR 2017	413	–	157	–	**570**

VIVAT Schade has improved technical results, but combined with low expected asset returns and funding costs the Own Funds development is negative.

Solvency Capital Requirement

In € millions	2018	2017
Underwriting risk Non-Life	203	208
Underwriting risk Health	269	271
Market risk	42	29
Counterparty default risk	16	9
Diversification	-168	-160
Basic Solvency Capital Requirement	**362**	**357**
Operational risk	21	21
Loss-absorbing capacity of technical provisions	-	-
Loss-absorbing capacity of deferred taxes	-22	-27
Net Solvency Capital Requirement	**361**	**351**

The main risk profile changes in 2018 are explained in the Risk Profile paragraph.

Solvency II Ratio

In € millions/percentage	2018[1]	2017[2]
Total eligible own funds	564	570
SCR	361	351
Solvency II ratio	156%	162%

1 Regulatory Solvency II ratio is not final until filed with the regulator
2 Figures as filed with the regulator

7.4.7. Risk Profile

VIVAT Schade keeps focusing on improving capital generation by re-risking, improving its combined ratio and value of new business, and further optimizing its risk profile taking into account its Risk Appetite. In 2018, as part of re-risking program, the investment portfolio has been shifted to more credit investments, Emerging Markets Debt and a securities lending program has been started which will have an expected positive impact on capital generation. However, this also leads to an immediate increase on the Solvency Capital requirement decreasing the Solvency II Ratio.

Due to widening of government bonds spreads and especially corporate bond spreads in the reference portfolio of the Volatility Adjustment (VA), the applicable VA has increased per year-end 2017 from 4bps to 24bps per year-end 2018. The portfolio of VIVAT and its insurance subsidiaries is currently more defensive than the VA Reference portfolio, as a consequence the spread impact to the assets was more limited than the decrease of the market value of insurance liabilities caused by the VA, having a limited impact on the Solvency II ratio of VIVAT Schade.

The main risk profile changes of VIVAT Schade relate to changes in spread risk (re-risking) and Non-life underwriting Risk (new re-insurance treaty). VIVAT Schade has improved technical results, but combined with low spread accrual, low interest accrual and funding costs the Own Funds development is negative. To become more in line with the observations of increasing impact due to natural causes, VIVAT has purchased additional reinsurance cover through an Annual Aggregate Excess of Loss treaty for 2019. The Annual Aggregate Excess of Loss treaty protects on an annual basis the retention of the catastrophe reinsurance programme and regular property programme against an increase in frequency, decreasing the Non-life underwriting risk (catastrophe risk) and increasing the Solvency II ratio.

Development Solvency Ratio

The development in 2018 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, Value New Business, 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 (i.e. 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 and changes in models.

Changes of Tax and Tiering due to fiscal movements, Senate approved changes to the corporate income taxrate and Solvency Capital Requirement changes are presented in Tax and Tiering effects. Next to these movements the Loss Absorbing Capacity of Deferred Taxes movement is taken into account.

Miscellaneous Movements or Other consists mainly of changes in insurance parameters (including expense), insurance results, as well as other business developments. It also contains the regular development (runoff development and new business) of the Solvency Capital Requirement.

Analyses of Change Solvency Ratio

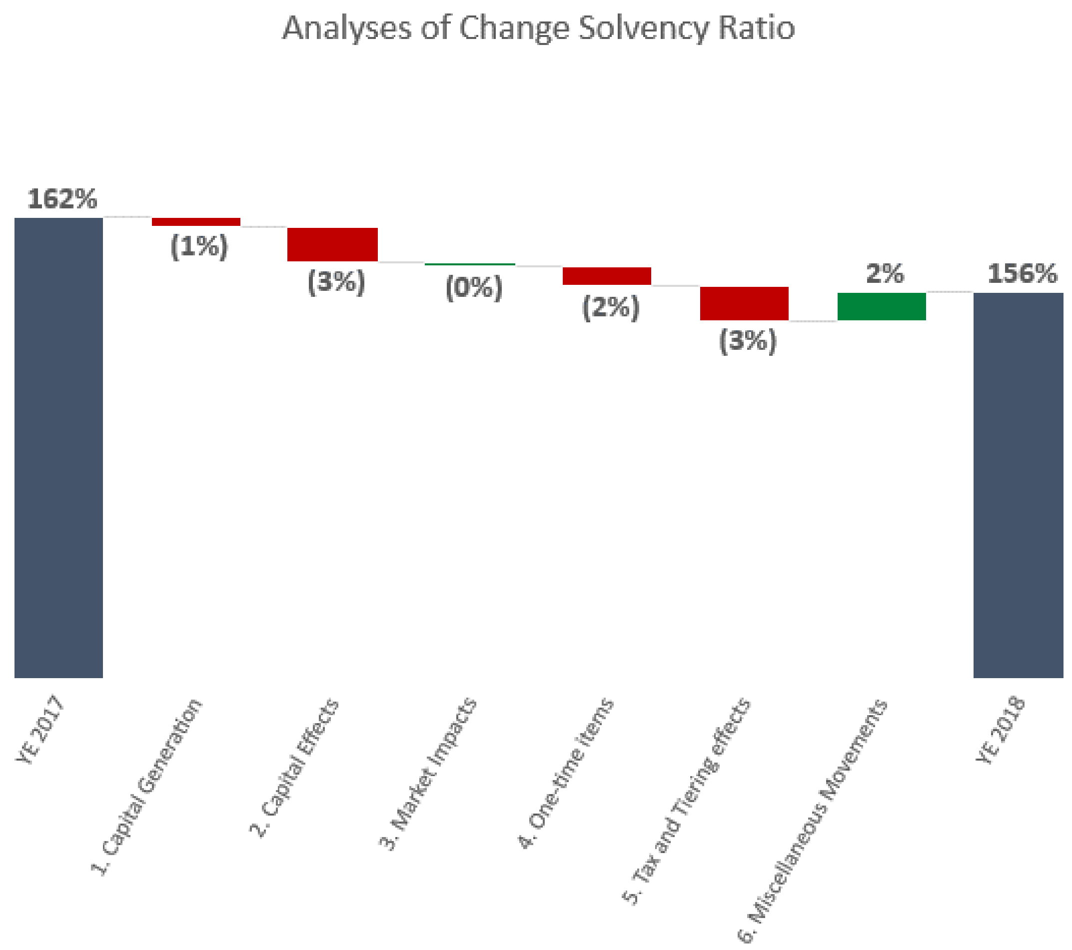

Figure 12: Analysis of Change Solvency Ratio VIVAT Schade

The Solvency II ratio of VIVAT Schade decreased from 162% to 156% in 2018. The main drivers of this movement are:

Capital Generation (-/- 1%)

VIVAT is actively steering to improve organic capital generation amongst others by optimising her risk profile and re-risk. VIVAT Schade's organic capital generation is hampered by low expected asset return caused by a low exposure to market risks.

Capital Effects (-/- 3%)

The decrease of the Solvency II ratio is explained by coupon payments on subordinated loans to VIVAT.

Market Impacts (+/+ 0%)

Market movements including the VA in total have limited impact to the Solvency II ratio.

One-time Items (-/-2%)

One-time items decreased the Solvency II ratio with 2%, mainly by events like:

- Re-insurance adjustments. To become more in line with the expected developments on climate change, VIVAT has purchased additional reinsurance cover through an Annual Aggregate Excess of Loss treaty for 2019. The Annual Aggregate Excess of Loss treaty protects on an annual basis the retention of the catastrophe reinsurance programme and regular property programme against an increase in frequency, decreasing the Non-life underwriting risk (catastrophe risk) and increasing the solvency ratio by approximately 5%.
- Re-risking. The re-risking programme has led to an increasing effect on the SCR spread. This decreases the Solvency II ratio by approximately 4%.
- The eligible own funds decreased due to the decrease of the UFR from 4.20% per year-end 2017 with 15bps to 4.05% per 2018 year-end, decreasing the Solvency II ratio with approximately 1%.
- Changes in models. The Solvency II ratio of VIVAT Schade is supported by improvements in determining the Risk Margin run-off pattern and improved modelling of the disability portfolio (transition to monthly model), increasing the Solvency II ratio in total with approximately 3%.
- Losses incurred by the January 2018 windstorm negatively impact profitability (-4%).

Tax and Tiering Effects (-/- 3%)
The movement is mainly explained by movements in the Deferred Tax Liability (DTL) and in the Loss Absorbing Capacity of Deferred Taxes. 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 19th December 2018 the Senate has approved part of the ‘Belastingplan 2019’. Among others this bill includes the reduction of the rate in corporate income tax (“CIT Rate”). Concretely, it means that the rate goes to 22.55% with effect from 2020 and to 20.50% with effect from 2021.

Miscellaneous Movements or Other (+/+2%)
The most important drivers for the increase in Solvency II ratio of 2% in this category is portfolio development, including reflection of this in underwriting parameter updates and insurance results.

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. Risk Management Process

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) describes the planned development of the insurance portfolio together with the related capital requirement for the next three years, based on expected new business and the existing portfolio. 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. A liability adequacy test on the (IFRS) premium and claims reserves is performed every quarter, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insight with respect to parameters are involved here. 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 Disability insurance policies. For short-term policies the Non-Life 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: IFRS-based liability adequacy test (LAT), long term profitability, SCR and VNB. Based on the risk appetite, VIVAT Schade mitigates underwriting risks primarily by means of diversification and reinsurance.

7.5.3. Non-life

For the division of risks into sub-risks in the Non-life insurance portfolios, VIVAT 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 authorized agents and distribution partners to retail and SME 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.

7.5.3.1. Disability

The Non-life insurer pays disability benefits which are covered in the individual and group portfolios. The Life insurer covers a premium waiver in case of disability.

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 manages these risks by continuously promoting/offering reintegration pathways and by monitoring the inflow and outflow.

7.5.3.2. 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 7.5.2, 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 coinsurance 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.

7.5.3.3. 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 for the portfolios, VIVAT Schadeverzekeringen NV has concluded a catastrophe contract for covered natural perils (storm, hail) and the accumulation of losses due to one event (e.g. conflagration) within the property portfolio.

The 2018 reinsurance programme was largely a continuation of the programme for 2017. From risk management and capital management considerations, the capacity of the catastrophe programme for 2018 and 2019 is aligned with the Risk Appetite of VIVAT Schade. As per 1st July 2018 a catastrophe risk sublayer with a retention level of € 10 million was purchased for the remainder of 2018 to mitigate the risk of a second catastrophe event after the windstorm of January 2018.

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 protects on an annual basis the retention of the catastrophe reinsurance programme and regular property programme against an increase in frequency.

Non-life insurance retention

In € thousands		2019	2018	2017
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		
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	750
Transport	per risk	1,000	1,000	1,000

The level of retention of the VIVAT 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.

7.5.3.4. Sensitivities and SCR Non-life

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. 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 € 29 million to minus € 31 million. In contrast to 2017 in 2018 the impact to Loss Absorbing Capacity is taken into account. This improved determination is the main driver for the increased sensitivity in the Solvency II ratio.

In € millions	Solvency II ratio	
	2018	2017
Claims +10%	-13%	-8%
Disability +25% and Recovery -20%	-58%	-49%
Loss ratio current accident year +10%	-12%	-7%

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	2018	2017
Non-Life premium and reserve risk	185	183
Non-Life lapse risk	9	4
Non-Life catastrophe risk	48	63
Diversification	-39	-42
SCR Non-Life underwriting risk	**203**	**208**

The increase in premium and reserve risk can be explained by portfolio development (increase of portfolio and run-off gains former accident years) and increases in claim reserves (due to a windstorm in January). The increase in lapse risk can be mainly explained by portfolio development including reflection of this in underwriting risk parameters (lower cost parameters and lower initial expected loss ratios). To become more in line with the expected developments on climate change, VIVAT has purchased additional reinsurance cover through an Annual Aggregate Excess of Loss treaty for 2019. The Annual Aggregate Excess of Loss treaty protects on an annual basis the retention of the catastrophe reinsurance programme and regular property program against an increase in frequency, decreasing the Non-life underwriting risk (catastrophe risk).

7.5.3.5. Sensitivities and 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	2018	2017
SLT Longevity risk	2	3
SLT Disability-morbidity risk	232	233
SLT Lapse risk	85	79
SLT Expense risk	18	22
SLT Revision risk	14	15
Diversification	-91	-90
SCR Health SLT underwriting risk	**260**	**262**

The change in SLT health lapse risk can be partly explained by a change in models due to new insight in determining the risk (interpretation Solvency legislation). Changes in the other risks can be mainly explained by insurance parameter updates, portfolio development and interest rate development (including VA).

SCR Health underwriting risk

In € millions	2018	2017
SCR Health SLT underwriting risk	**260**	**262**
Non-SLT premium reserve risk	15	15
Non-SLT lapse risk	3	3
Diversification	-2	-3
SCR Health Non-SLT underwriting risk	**16**	**15**
Health catastrophe risk	3	3
Diversification	-10	-9
Total health underwriting risk	**269**	**271**

Non-SLT SCR

Due to the limited size of the portfolio, the Non-SLT underwriting risk is limited. The relevant portfolio conists mainly of pet's healthcare insurance.

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.

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

7.6.2. Risk Management Process ALM

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

The starting point for the ALM policy is the ALM study, which is drawn up annually. The ALM study seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, laws and regulations. This ALM study 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. In order to spread the risk, the risk is spread across a range of risk drivers, asset classes and sectors. 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 which risks are properly identified, measured, monitored, managed, controlled and reported.

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 risk exposures based on overlay hedging tools. This evaluation is supported by metrics for yield curve risk and non-linear interest rate risk. In this manner, VIVAT Schade manages market risk from a holistic balance sheet perspective.

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

7.6.3. 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	2018	2017
Interest rate risk	16	12
Equity risk	7	12
Spread risk	33	17
Concentration risk	-	-
Currency risk	-	-
Diversification	-14	-12
SCR market risk	**42**	**29**

The main drivers for the SCR market risk increase are an increase in the interest rate risk and an increase in the spread risk. The spread risk increased mainly due to the re-risking programme. The interest rate risk mainly increased due to the improved modelling of the disability portfolio slightly decreasing the sensitivity of the liabilities and increasing the interest risk.

7.6.3.1. 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.

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 2018 prescribed UFR of 4.05% 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 4.2%, per 1 January 2019 the applicable UFR will decrease to 3.9%. 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 4.05%), 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).

Sensitivity

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
	2018	2017	**2018**	2017	**2018**	2017
Interest +50 bps	-8.3	-2.7	-20.8	-2.7	4.1%	5.3%
Interest -50 bps	9.5	2.8	22.5	2.8	-4.2%	-5.9%
UFR -15 bps	0.0	0.0	0.0	0.0	-0.1%	-0.5%
UFR -50 bps	0.0	-0.6	0.0	-0.6	-0.3%	-0.8%
Excluding VA	-	-	-	-	-5.7%	-1.0%

The decrease in interest rate sensitivities for IFRS, per 2018 compared to 2017, can be mainly explained by the effect of implemented model improvements for VIVAT Schade. Under IFRS, as from YE 2017, part of the disability provisions is valued on current interest rate and therefore is sensitive to interest rates changes.

VIVAT Schade manages its interest rate risk by stabilizing the Solvency II ratio after an up or down interest rate shock, taking the UFR of 4.05% into account. This generally results in a negative own funds impact for interest rate up movements and a positive own funds impact for interest down movements. In 2018 the government bonds spreads and especially corporate bonds spread have widened in the reference portfolio of the VA, the applicable VA has increased from 4bps per year-end 2017 to 24bps per year-end 2018. As a consequence the 'excluding VA' sensitvity increased.

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 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**

Cash flows from insurance business 2017

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	122,368	380,296	158,270	111,160	83,956	93,041	**949,091**
Total	**122,368**	**380,296**	**158,270**	**111,160**	**83,956**	**93,041**	**949,091**

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 71 bps, both without re-applying the UFR. For VIVAT Schade the up shock is leading.

SCR Interest rate risk

In € millions	2018[1]	2017
SCR interest up shock	-16	-12
SCR interest down shock	-	-
SCR interest rate risk	**16**	**12**

[1] Positive own funds impacts are set to zero in 2018 and 2017

The interest rate risk of VIVAT Schade mainly increased due to the improved modelling of the disability portfolio slightly decreasing the sensitivity of the liabilities and increasing the interest rate risk.

7.6.3.2. Equity Risk

The IFRS-based equities classification also 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, in line with the situation applying in the case of interest rate risk.

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

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
	2018	2017	**2018**	2017	**2018**	2017
Equities +10%	0	0	2	3	1%	1%
Equities -10%	0	0	-2	-3	-1%	-1%

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	2018	2017
Type 1 equities	-	1
Type 2 equities	7	11
Diversification	-	-
Equity risk	**7**	**12**

Equity risk for VIVAT Schade decreased mainly due to selling her subsidiary in CED Holding BV and due to a decreased valuation of a strategic participation. VIVAT Schade reports on an unconsolidated basis, resulting into a classification of net asset value (mainly property) to type 2 strategic equity risks for several subsidiaries (which are listed in 1 Subsidiaries).

7.6.3.3. 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.

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.

The swap curve (including UFR) is currently used when discounting insurance liabilities under IFRS. A change in the swap curve 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 swap curve 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 sheet is well matched, there remains significant volatility as the credit risk profile of VIVAT Schade differs from the profile implied by the Volatility Adjustment (VA). In 2018, as part of re-risking programme, the investment portfolio has been shifted to more credit investments and emerging market debts decreasing the risk.

An increase of credit spreads will directly have a negative short-term effect on IFRS equity and net result, in the long run, spreads are expected to be realised, mitigating this short term negative effect. 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 24 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 11 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]	
	2018	2017	**2018**	2017	**2018**	2017
Credit spreads Government Bonds +50 bps	–	–10	–8	–10	0%	–2%
Credit spreads Corporates/Mortgages +50 bps	–	–2	–4	–2	2%	1%
All Credit spreads +50 bps	–	–13	–12	–13	2%	–1%

[1] An increase of credit spreads also leads to an increase of VA, impacting the value of the liabilities.

For IFRS Shareholders equity the credit spread sensitivity over 2018 decreased for Government Bonds and increased for Corporates/Mortgages due to re-risking. In contrast to 2017 for IFRS net result VIVAT Schadeverzekeringen NV has modified her net result determination for this sensitivity, applying the OCI indication.

Solvency Capital Requirement for spread risk

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	2018	2017
Bonds and loans	33	16
Securitisation positions	–	1
Spread risk	**33**	**17**

In 2018, as part of re-risking program, the investment portfolio has been shifted to more credit investments and Emerging Market Debt which will have an expected positive impact on capital generation, however also an immediate increase on the Solvency Capital requirement for spread risk. Re-risking is the main driver for the increase in spread risk, European sovereigns and sub-sovereigns are excluded from spread risk in the standard formula (replacement of long term government bonds does not affect the spread risk).

7.6.3.4. 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.

7.6.3.5. 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	2018	2017
Currency risk VIVAT Schade	-	-

7.6.3.6. 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 2018, 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 an unexpected payment default of the counterparties and debtors of insurance and reinsurance undertakings within the next twelve months.

The SCR Counterparty Default Risk covers risk-mitigating contracts, such as reinsurance arrangements, insurance securitisations, repos, derivatives and receivables from intermediaries, as well as any other credit exposures not covered by the definition of SCR Spread Risk.

For each counterparty, the overall credit default risk exposure of the insurance or reinsurance undertaking concerned to that counterparty is measured, irrespective of the legal form of its contractual obligations to that undertaking. Its calculation also takes into account collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith.

Besides the calculation of SCR Counterparty Default Risk, VIVAT, including VIVAT Schade has developed a complementary Counterparty Risk Policy for internal use. This risk is measured as Loss At Default (LAD) and Stress Loss (SL) and combines instruments/exposures that are in scope for both SCR Concentration Risk and SCR Counterparty Default Risk. Appropriate internal LAD and SL limits have been incorporated in the ALM policy and must be adhered to.

VIVAT Schade uses this methodology to aggregate and monitor all types of exposures to various types of individual counterparties, such as (sub)sovereigns, financials and corporates. The periodic Counterparty Risk reports are discussed by the Investment Committee, and appropriate measures are taken when limits are exceeded.

7.7.2. Risk Management Process

The VIVAT Schade manages and verifies counterparty default risk within the set frameworks. Investments may 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 means of measuring 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.

Fixed-income investment portfolio

The counterparty default risk within the interest-bearing 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 along the various investment grade categories within the interest-bearing 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 provide 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.

7.7.3. SCR Counterparty Default Risk

The counterparty default risk module reflects the possible loss as a consequence of bankruptcies or a reduction in the credit standing of counterparties over a twelve month period. The SCR for the counterparty default risk is determined by aggregating the capital requirements related to type 1 and type 2 exposures.

Counterparty default risk

In € millions	2018	2017
Type 1 exposures	13	5
Type 2 exposures	4	4
Diversification	-1	-
SCR counterparty default risk	**16**	**9**

In 2018 the counterparty default risk type 1 increased mainly due to starting a securities lending programme and due to new insight in determining the risk (legislation and modelling). The counterparty default risk type 2 for VIVAT Schade remained stable.

Type 1 exposures are exposures that are expected to involve 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 is a percentage of the total losses given-default on all type 1 exposures, the percentage is dependent on the variance between the type 1 exposures, the higher the variance the lower the percentage.

The loss-given default (LGD) on a single-name exposure is equal to the sum of the LGDs on each of the underlying exposures to counterparties belonging to the relevant 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 credit risk on type 2 exposures is equal to the loss in the basic own fund as defined by EIOPA.

Diversification

Not all risks will materialise at the same time and at their full magnitude resulting in diversification between different risk types.

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. Risk Management Process

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 second line Risk department, monitors and provides advice to management on compliance risk and operational risk.

Compliance risk

Compliance risk is the risk that an organisation could suffer legal or regulatory sanctions, material financial loss, or loss of reputation as a result of non-compliance with laws, regulations, rules, self-regulatory standards, codes and unwritten rules that apply to its activities.

Non-compliance with integrity- and conduct related rules can lead to regulatory action, financial loss or damage to the reputation of VIVAT Schade, for example fines, compensation, disciplinary action, imprisonment or exclusion proceedings.

Laws and regulations within scope consist among others of 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 nonfinancial 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's risk management framework. VIVAT, including VIVAT Schade recognises the following types of operational risk: Execution & Process Control risk, IT risk, Internal Fraud risk, External Fraud risk, Damage to physical assets risk and Staff & security risk. Model risk is considered a separate risk.

7.9.2. Risk Management Process

In managing non-financial risks VIVAT Schade follows the risk management process as set out in Section 7.3. 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.

7.9.3. Developments

In 2018 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.

7.9.4. Exposure to Non-financial Risks

As important part of VIVAT risk framework, during 2018 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, reporting and analysis tooling and process ownership enables the organization 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

Owing to the great complexity of the legislation concerning Solvency II, IFRS, GDPR, ILM, IDD, PRIIPS and Supply Chain Responsibility, legislation may not be implemented in good time as a result of which VIVAT Schade would not be compliant and would inter alia suffer reputational damage as a result.

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

Due to new legislation both in the Netherlands and in the EU (General Data Protection Regulation) privacy risks should be taken into account. Special precautions are in order to avoid data breaches when personal data is transferred to third parties, especially to parties in countries outside the EU that do not provide an adequate level of protection. An implemented broad privacy program and local Privacy Champions safeguard full attention to VIVAT Schade 's compliancy with the privacy regulation. VIVAT appointed a Data Protection Officer within the Compliance department.

Operational Risk

Execution and Process Control Risk

In 2018 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 will be different for each individual employee, but may cause distraction from work and change of focus on personal priorities.

Further improving the quality of process design was an important topic addressed in 2018, resulting in good progress in order to further incorporate automated controls within the ICF framework and new quality of design standards checklist are 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 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

In order to be more efficient, VIVAT (including VIVAT Schade) defined the target IT landscape and non-target systems are made redundant. This rationalisation will continue in 2019. Besides, the IT focus is on innovations like new and modern apps. The IT organisation has implemented the Agile way of working and Continuous Delivery, to improve on efficiency and to decrease time-to-market. VIVAT is aware that these developments require high standards of change management within the IT department to maintain an IT landscape that is in control and is managing IT risks. VIVAT is aware of the increasing strategic importance of collecting, managing and use of data, taking into account relevant legislation, e.g. GDPR. VIVAT has implemented a sustainable design for Data Governance to manage and monitor the diverse data related initiatives.

Outsourcing / Cloud computing

VIVAT Schade is shifting away from handling IT matters itself in favour of outsourcing in areas of the consumer value chain where VIVAT Schade is less distinctive. VIVAT Schade assesses how the required functionalities in that value chain can be purchased or outsourced as components. VIVAT Schade performs risk assessments for new outsourcing initiatives, the results of which are reflected in the contracts with outsourcing partners.

During 2018 further improvements are made in structurally embedding legal requirements regarding outsourcing in our procurement procedures and integrated control framework. A good supplier management is set up to in order to maintain the desired level of control over outsourcing.

Cybercrime Risk

Fighting cybercrime is a key priority for a financial organisation like VIVAT. Cyber criminals are always trying to compromise financial companies, for example with ransomware. In 2018 no major incidents related to cybercrime occurred within VIVAT Schade. Cybercrime will remain high on the agenda of the VIVAT Schade's management. Appropriate organisational and technological measures have been taken in order to be able to tackle the cybercrime risks, like the cooperation with the National Cyber Security Centre and other major Dutch insurance companies. Also in 2019 new measures will be implemented to stay in control over the cybercrime risk.

Staff and Security Risk

Due to active monitoring in 2018, the sick leave percentage has shown a strong decrease. Nevertheless, VIVAT Schade will continue to monitor sick leave and will further enhance the level of control by changing to a new health service partner and dedicated case management. Furthermore, with regard to social safety, VIVAT Schade conducted an employee survey in 2018, as well as a RIE (Risk Inventory and Evaluation) with a plan of action.

Model risk

In 2018, VIVAT Schade completed its model inventory and by that increased overview and insight into its model landscape. Within the Risk Model Landscape programme important steps towards lower model risk are taken by converting important SCR- and ALM-tooling. Model risk is further reduced by the follow-up of large numbers of second line findings, especially for reporting models, resulting in a more efficient and reliable valuation of underwriting and market risks and the determination of the solvency ratio. 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.

7.9.5. 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	2018	2017
VIVAT Schade	21	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 2018	31 December 2017[2]
> Assets			
Intangible assets		385	1,044
Subsidiaries	1	2,173	5,543
Investments		1,556,734	1,567,226
Derivatives		23,307	18,511
Reinsurance contracts		83,233	89,965
Corporate income tax		–	9,165
Assets held for sale		–	7,335
Other assets		59,251	70,115
Cash and cash equivalents		46,749	43,127
Total assets		**1,771,832**	**1,812,031**
> Equity and liabilities			
Issued share capital[3]		10,898	10,898
Share premium reserve		464,437	464,437
Fair value reserve		48,358	75,379
Retained earnings		-187,118	-198,461
Shareholders' equity	2	**336,575**	**352,253**
Subordinated debt		150,000	150,000
Insurance liabilities		1,134,709	1,158,670
Provision for employee benefits		24,552	26,240
Derivatives		5,945	7,803
Deferred tax liabilities		3,076	3,844
Amounts due to banks		17,049	15,667
Corporate income tax		4,886	–
Other liabilities		95,040	97,554
Total equity and liabilities		**1,771,832**	**1,812,031**

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 Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.
3 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]	2018	2017[2]
> Income			
Premium income		723,422	683,227
Reinsurance premiums		44,322	38,969
Net premium income		**679,100**	**644,258**
Fee and commission income		3	14
Fee and commission expense		–	-10
Net fee and commission income		**3**	**24**
Share in result of subsidiaries and associates		410	-5,298
Investment income		21,395	15,845
Result on derivatives		6,650	–
Total income		**707,558**	**654,829**
> Expenses			
Result on derivatives		–	9,263
Technical claims and benefits		422,534	379,293
Acquisition costs for insurance activities		161,010	143,426
Staff costs		74,463	72,873
Depreciation and amortisation of non-current assets		658	2,604
Other operating expenses		27,296	28,549
Impairment losses		-317	399
Other interest expenses		10,669	10,730
Total expenses		**696,313**	**647,137**
Result before tax		**11,245**	7,692
Tax expense		1,608	3,004
Net result continued operations for the period		**9,637**	**4,688**

> Attributable to:			
- Shareholder		9,637	4,688
Net result continued operations for the period		**9,637**	**4,688**

[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.
[2] Because of the merger between VIVAT Schade and Fnidsen Beheer BV the comparative figures have been adjusted. For further explanation see paragraph 6.1.1. Legal Merger.

8.3. Company Statement of Total Comprehensive Income

Company statement of other comprehensive income

In € thousands	2018	2017
> OCI not to be reclassified subsequently to profit or loss		
Remeasurement effects of defined benefit pension plan	2,231	-1,768
Change in other reserves	-27	-
Income tax relating to items that never be reclassified	-558	442
Tax rate reduction adjustment relating to items that never be reclassified	60	-
Net OCI never reclassified to profit or loss	**1,706**	**-1,326**
> OCI to be reclassified subsequently to profit or loss		
Unrealised revaluations investments available for sale	-25,312	-15,921
Impairments and reversals	-44	-136
Realised gains and losses through profit or loss	-8,873	-579
Income tax relating to items that may be reclassified	6,015	4,151
Tax rate reduction adjustment relating to items that may be reclassified	1,193	-
Net OCI to be reclassified to profit or loss subsequently	-27,021	-12,485
Other comprehensive income (net of tax)	**-25,315**	**-13,811**

Company statement of total comprehensive income

In € thousands	2018	2017
Net result for the period	9,637	4,688
Other comprehensive income (after tax)	-25,315	-13,811
Total comprehensive income	**-15,678**	**-9,123**
> Attributable to:		
- Shareholder	-15,678	-9,123

8.4. Company Statement of Changes in Equity

Company statement of changes in equity 2018

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Retained earnings[2]	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**

[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.
[2] Other reserves and Retained earnings have been aggregated into Retained earnings. The comparative figures are adjusted accordingly.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2017, no dividends for 2018.

Company statement of changes in equity 2017

In € thousands	Issued share capital	Share premium	Fair value reserve	Retained earnings[1]	Sum of reserves	Total shareholders' equity
Balance as at 1 January 2017	**10,898**	**398,823**	**87,864**	**-139,585**	**347,102**	**358,000**
Adjustment merger Fnidsen with VIVAT Schade	-	60,614	-	-62,238	**-1,624**	**-1,624**
Adjusted balance as at 1 January 2017	**10,898**	**459,437**	**87,864**	**-201,823**	**345,478**	**356,376**
Other comprehensive income	-	-	-12,485	-1,326	**-13,811**	**-13,811**
Net result 2017	-	-	-	4,688	**4,688**	**4,688**
Total comprehensive income 2017	**-**	**-**	**-12,485**	**3,362**	**-9,123**	**-9,123**
Capital issue	-	5,000	-	-	**5,000**	**5,000**
Total changes in equity 2017	**-**	**5,000**	**-12,485**	**3,362**	**-4,123**	**-4,123**
Balance as at 31 December 2017	**10,898**	**464,437**	**75,379**	**-198,461**	**341,355**	**352,253**

[1] Other reserves and Retained earnings have been aggregated into Retained earnings. The comparative figures are adjusted accordingly.

Statement of revaluation reserves and other legal reserves

In € thousands	2018	2017
Balance as at 1 January	**75,379**	**87,864**
Unrealised revaluations	-25,312	-15,921
Impairments and reversals	-44	-136
Realised gains and losses transferred to profit or loss	-8,873	-579
Income tax	6,015	4,151
Tax rate reduction adjustment	1,193	-
Total changes in equity	**-27,021**	**-12,485**
Balance as at 31 December	**48,358**	**75,379**

8.5. Company Cash Flow Statement

In € thousands	2018	2017
> Cash flow from operating activities		
Operating profit before tax	11,245	9,144
> Adjustments for:		
Depreciation and amortisation of non-current assets	658	2,604
Amortisation of investments	17,335	16,213
Changes in insurance liabilities	-17,229	-53,213
Changes in other provisions	-	204
Impairment charges / (reversals)	-317	399
Unrealised results on investments through profit or loss	-6,650	-4,304
Retained share in the result of associates	3,370	967
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	1,382	-6,642
Change in other operating activities	36,341	-3,267
Net cash flow from operating activities	**46,135**	**-37,895**
> Cash flow from investment activities		
Proceeds from sale of assets held for sale	7,335	-
Capital issue subsidiaries	-	-12,700
Sale and redemption of investments and derivatives	1,188,382	874,089
Capital injection	-	5,000
Purchase of investments and derivatives	-1,238,230	-838,410
Net cash flow from investment activities	**-42,513**	**27,979**
> Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**3,622**	**-9,916**
Cash and cash equivalents 1 January	43,127	53,043
Cash and cash equivalents as at 31 December	**46,749**	**43,127**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	33,665	7,107
Dividends received	1,157	1
Interest paid	10,567	10,608

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).

Changes in policies, estimates and presentation and other adjustments

On 28 October 2018 VIVAT Schadeverzekeringen NV merged with Fnidsen Beheer BV pursuant to title 2.7 of the Dutch Civil Code, with the retrospective effect, from a legal perspective, as per 1 January 2018 whereby VIVAT Schadeverzekeringen NV acquired all the assets and liabilities of Fnidsen Beheer BV by universal succession of title and Fnidsen Beheer BV ceased to exist. It is the intention that the activities of Fnidsen Beheer BV will be continued by VIVAT Schade.

The merger is considered to be a common control transaction as VIVAT Schade and Fnidsen Beheer BV were both wholly-owned subsidiaries of VIVAT NV. The accounting policies of Fnidsen NV and VIVAT Schade were uniform and the assets and the liabilities were acquired at their carrying amounts. VIVAT Schade elected to apply the pooling of interest method. As a result, the financial information of Fnidsen Beheer BV is accounted for in the financial statements of VIVAT Schade as per 1 January 2017. As a consequence of the merger Vivat Schade also became the 100% owner of Bemiddelingskantoor Nederland BV, a subsidiary previously owned by Fnidsen Beheer BV.

The comparative figures have been adjusted as follows:

Company Statement of Financial Position 31 December 2017

Before result appropriation and in € thousands	VIVAT Schade	Fnidsen	VIVAT Schade merged
> Assets			
Intangible assets	1,044	-	1,044
Subsidiaries	4,110	1,433	5,543
Investments in associates	-	-	-
Investments	1,567,226	-	1,567,226
Derivatives	18,511	-	18,511
Deferred tax assets	-	-	-
Reinsurance share	89,965	-	89,965
Corporate income tax	9,165	-	9,165
Assets held for sale	7,335	-	7,335

Before result appropriation and in € thousands	VIVAT Schade	Fnidsen	VIVAT Schade merged
Other assets	70,115	–	70,115
Cash and cash equivalents	43,127	–	43,127
Total assets	**1,810,598**	**1,433**	**1,812,031**
> Equity and liabilities			
Share capital	10,898	–	10,898
Reserves	474,202	65,614	539,816
Retained earnings	-134,771	-63,690	-198,461
Total shareholders' equity	**350,329**	**1,924**	**352,253**
Subordinated debt	150,000	–	150,000
Insurance liabilities	1,158,670	–	1,158,670
Provision for employee benefits	26,240	–	26,240
Derivatives	7,803	–	7,803
Deferred tax liabilities	3,844	–	3,844
Amounts due to banks	15,667	–	15,667
Other liabilities	98,045	-491	97,554
Total equity and liabilities	**1,810,598**	**1,433**	**1,812,031**

Company Statement of Profit or Loss 2017

In € thousands	VIVAT Schade	Fnidsen	VIVAT Schade merged
> Income			
Premium income	683,227	–	683,227
Less: Reinsurance premiums	38,969	–	38,969
Net premium income	**644,258**	**-**	**644,258**
Fee and commission income	14	–	14
Fee and commission expense	-10	–	-10
Net fee and commission income	**24**	**-**	**24**
Share in result of associates	-3,846	-1,452	-5,298
Investment income	15,845	–	15,845
Result on derivatives	–	–	–
Total income	**656,281**	**-1,452**	**654,829**
> Expenses			
Result on derivatives	9,263	–	9,263
Technical claims and benefits	379,293	–	379,293
Acquisition costs for insurance activities	143,426	–	143,426
Staff costs	72,873	–	72,873
Depreciation and amortisation of non-current assets	2,604	–	2,604
Other operating expenses	28,549	–	28,549
Impairment losses	399	–	399
Other interest expenses	10,730	–	10,730
Total expenses	**647,137**	**-**	**647,137**
Result before tax	**9,144**	**-1,452**	**7,692**
Tax expense	3,004	–	3,004

In € thousands	VIVAT Schade	Fnidsen	VIVAT Schade merged
Net result continued operations for the period	**6,140**	**-1,452**	**4,688**

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	2018	2017
Balance as at 1 January	5,543	1,153
Capital issue	-	12,700
Result	-3,370	-6,195
Change in other provisions	-	-2,115
Balance as at 31 December	**2,173**	**5,543**

At year-end 2018, VIVAT Schade wholly owned the following group entities:
- Volmachtkantoor Nederland BV
- Bemiddelingskantoor Nederland BV
- Nieuw Rotterdam Knight Schippers BV
- W.Haagman & Co BV

Bemiddelingskantoor Nederland BV was a subsidiary of Fnidsen Beheer BV. Due to the merger of VIVAT Schadeverzekeringen NV with Fnidsen Beheer BV, Bemiddelingskantoor Nederland BV became a subsidiary of VIVAT Schadeverzekeringen NV. The financial information of Fnidsen Beheer BV is accounted for in the financial statements of VIVAT Schade as per 1 January 2017.

The value of subsidiary Bemiddelingskantoor Nederland BV was € 2,115 thousand negative at the end of 2016. In 2017 the value of the subsidiary Bemiddelingskantoor Nederland BV became positive due to a capital injection by Fnidsen of € 5.0 million and due to its negative result of € 1,452 thousand. As a consequence a provision for a negative carrying amount of subsidiaries was no longer needed which resulted in a release of the provision of € 2,115 thousand in 2017.

2. Equity

Breakdown of Equity

In € thousands	2018	2017
Equity attributable to the shareholder	336,575	352,253
Total	**336,575**	**352,253**

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.

On 28 October 2018 VIVAT Schadeverzekeringen NV merged with Fnidsen Beheer BV pursuant to title 2.7 of the Dutch Civil Code, with the retrospective effect, from a legal perspective, as per 1 January 2018. whereby VIVAT Schadeverzekeringen NV acquired all the assets and liabilities of Fnidsen Beheer BV by universal succession of title and Fnidsen Beheer BV ceased to exist..

The merger considered to be a common control transaction as VIVAT Schade and Fnidsen Beheer BV were both the wholly-owned subsidiaries of VIVAT NV. The accounting policies of Fnidsen NV and VIVAT Schade were uniform and the assets and the liabilities were acquired at their carrying amounts. VIVAT Schade elected to apply the pooling of interest method. As a result, the financial information of Fnidsen Beheer BV is accounted for in the financial statements of VIVAT Schade as per 1 January 2017.

3. Guarantees and Commitments

For details on off-balance sheet commitments, see Note 14 Guarantees and commitments of the consolidated financial statements.

4. Related Parties

Intra-group Balances and Transactions between VIVAT Schadeverzekeringen NV and Subsidiaries

In € thousands	2018	2017
> Positions		
Other liabilities	1,153	1,153
> Transactions		
Capital issue to subsidiaries	–	12,700
Acquisition costs for insurance activities	17,193	16,377

For details on the intra-group balances and transactions between VIVAT Schade, VIVAT, Anbang and Affiliates, see Note15 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 2018 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 2018 of € 9,637 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 21 June 2018 and the General Meeting of Shareholders of Fnidsen Beheer BV held on 18 June 2018, the total positive result for 2017 of € 4,688 (€ 6,140 thousand positive and € 1,452 thousand negative) has been added to the retained earnings of VIVAT Schadeverzekeringen NV.

Amstelveen, the Netherlands, 8 April 2019

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

J.J.T. van Oijen (Chairman)

L. Tang

X.W. Wu

Y. Cao

W.M.A. de Ruiter-Lörx

J.C.A. Potjes

The Route Mobiel roadside assistance service operates in the Netherlands and 43 other countries. The company has an extensive network of expert assistance providers, with over 180 bases across the Netherlands.

ROUTE MOBIEL

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 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 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 2018 and of its result and its cash flows for 2018 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 2018
- The following statements for 2018: 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 million (2017: EUR 7 million)
Benchmark applied	2% of VIVAT Schade's shareholder's equity (2017: 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 EUR 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 2 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.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Risk	VIVAT Schade has insurance contract liabilities of EUR 1.1 billion representing 79% 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: • 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 mortality rates for bodily injury and disability claims. 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 2018, the LAT of VIVAT Schade shows a surplus.

Our audit approach	We involved our own actuarial specialists to assist us in performing our audit procedures in this area, which included among others: • Consideration of the appropriateness of the expected loss ratio used in the valuation of the IBNR and URR insurance liabilities by assessing the Company's past claim developments, the applied expected loss ratio assumptions and trends in the industry. • Consideration of the appropriateness of the morbidity, recovery and mortality rate assumptions for bodily injury and disability claims 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 premium and 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 morbidity, recovery and mortality rates, based on the Company's experience data and expectations of future developments of claims. We also assessed the reasonableness of the new Disability cash flow model that was implemented in 2018. 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 Unearned Premium Reserve for the authorized agents portfolio. We have verified the financial impact and disclosure of these changes. We considered whether VIVAT Schade's disclosures in note 9 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. We also assessed the impact of data conversions executed in 2018 to the in scope systems, including assessment of the follow up to the findings identified in this relation, as well as the redesign of the IT general control framework.
Key observations	The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

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., 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.

Building a better working world

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, 8 April 2019

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.