Annual Report
Reaal Schadeverzekeringen NV 2016

Zwitserleven Reaal actiam

VIVAT

At Reaal we are looking beyond the horizon. We've taken a new approach to insurance. New technologies and analysis of big data allow us to identify our customers' needs more effectively.

Contents

1. Key figures

In € thousands	2016	2015	2014	2013	2012
Result					
Net premium income	621,100	640,433	713,243	725,076	753,111
Investment income	19,008	22,817	38,047	128,525	66,571
Total income	658,959	664,813	752,154	855,476	821,527
Total expenses	734,552	770,259	895,313	851,289	782,046
Result before taxation	**-75,593**	**-105,446**	**-143,159**	**4,187**	**39,481**
Taxation	-18,939	-26,528	-35,956	880	9,443
Net result	**-56,654**	**-78,918**	**-107,203**	**3,307**	**30,038**
Statement of financial position					
Total assets	**1,916,279**	**1,891,813**	**1,739,021**	**1,747,652**	**2,279,568**
Investments	1,635,537	1,614,618	1,430,732	1,457,039	1,830,177
Total equity	**356,650**	**404,839**	**289,161**	**351,231**	**710,084**
Insurance liabilities	1,236,901	1,247,638	1,289,982	1,221,903	1,255,871

> Ratios					
Regulatory solvency II Reaal Schadeverzekeringen NV	152%	142%[1]	-	-	-

[1] Regulatory solvency II ratio is based on Day 1 figures. This ratio is unaudited.

Reaal Schadeverzekeringen and Reaal Schadeverzekeringen NV

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

The Reaal Schade Report of the Executive Board, as referred to in section 2:391 of the Dutch Civil Code includes the following chapters: 2016 at a glance (chapter 1), Key figures, Foreword (chapter 2), Strategy and developments (chapter 3), the Executive Board (chapter 4.1) and Remuneration (chapter 4.4).

As the world becomes more complex, people need simplicity. At Reaal, we are aware of the speed at which changes are taking place. We understand the impact on society and recognise that our customers' needs are rapidly evolving too.

2. Foreword

Message from the Executive Board of Reaal Schadeverzekeringen

Dear stakeholders,

2016 – the first full year following the takeover by Anbang – was a dynamic year for VIVAT (and therefore Reaal Schadeverzekeringen and the other brands). An accelerated restructuring process ensured that, in a relatively short period of time, VIVAT has transformed itself to be able to respond to market developments more effectively, and therefore Reaal Schade faces the future with confidence.

In the first half of the year, the Executive Board was strengthened with a new Chief Executive Officer, a Chief Commercial Officer and a Chief Operating Officer. The Board consists of seven members who each focus their attention on one of the newly created product lines at VIVAT: Life Corporate, Individual Life, Property & Casualty and Asset Management. Furthermore, general managers who are responsible for the daily management have been appointed for each of these product lines. All digital activities, which previously were placed in different parts of the organisation, have been centralised in a Digital department that will focus on the further development of the digital channel.

The reorganisation through which our workforce was reduced by one third, was completed sooner than originally planned. By accomplishing this in 2016 instead of the previously anticipated three years, we have ended a period of uncertainty for our colleagues and will be able to reap the benefits of the changes at an earlier stage. In addition business processes and the IT landscape were simplified. The various measures are ongoing and will result in additional annual cost savings into the future.

Due to the capital injection to VIVAT NV provided by Anbang, the solvency ratio (based on prudent calculations) has been stabilised. This also allows us to optimise our investment portfolio. Good progress was made in this direction in 2016, as a result of which we can expect additional investment income going forward.

VIVAT is ready to grow towards the future. The aim is to better serve the consumer market with our brand Reaal. We will intensify an omni-channel approach including more online services. Our aim is to improve and strengthen our position across the board, for example by improving customer journeys and introducing new product offerings. Due to its distinctive sustainable investment policy, asset manager ACTIAM is one of our key resources. Recognition for this policy in 2016 was reflected in the high score in the Fair Insurance Guide (Eerlijke Verzekeringswijzer) and the receipt of the prestigious International Climate Award.

We trust that our improved positioning will help us to be more successful. VIVAT has created a new foundation on which we can continue to build on in the future. In addition to more financial security, close collaboration with our parent company Anbang provides us access to exceptional expertise in the area of digital services. This enables us to make fast progress in this field. Big data analysis further improves our ability to identify customers' needs and the use of advanced techniques allows us to work faster and more efficiently. Furthermore, we are increasing our power to innovate by establishing new, strong relationships with start-ups and by investing in data science education programmes for our employees. This enables us to quickly and adequately respond to the latest market trends.

VIVAT aims to take a leading position in the digital insurers market, next to our already strong relationship with intermediary distribution partners. By offering understandable, transparent and innovative products and services at a competitive price, customers should be able to rely on us and feel confident that they can approach us. As such, we offer our customers smart solutions for protecting their valuables and realising their dreams.

The transition year 2016 bodes well for the future, for a large part due to the efforts, flexibility and proactive attitude of our colleagues who are committed to the renewed organisation. We thank our customers, our shareholder, our employees and our business partners for the trust that they have placed in us.

Amstelveen, the Netherlands, 31 May 2017

On behalf of the Executive Board of Reaal Schadeverzekeringen NV,

Ron van Oijen, Chief Executive Officer

With our trusted and familiar brand Reaal we offer consumers products and services that are designed to make their lives easier. Now and in the future.

3. Strategy and developments

Reorganisation and stabilisation was the company's priority in 2016, the first full year following the acquisition by Anbang. A new organisational structure has been implemented with a full new management team in place. Various aspects of the strategy changes initiated in 2015 were accelerated, aimed at structurally improving Reaal Schade's foundations and creating a leading, customer-centric and innovation-driven insurance company that can respond to market developments effectively.

3.1. Strategic themes

Reaal Schade is transforming into a customer-centric rather than a product-centric insurance company. This process reflects our vision, which is helping our customers to realise their dreams and protect their belongings. More and more, Reaal Schade will apply an omni-channel approach. Reaal Schade recognises the power of the digital channel and therefore will further invest in its digital platform. At the same time we respect and see the importance of our strong intermediary channel.

Standardisation and simplification are key concepts in our transition, as is demonstrated in the restructuring of the organisation. The present organisation is less complex and more compact, which enables us to provide better service to our customers in accordance with current standards. Business processes are being simplified and the new Reaal Schade strongly focuses on innovation and digitisation.

With our brand Reaal we serve our product line Property & Casualty. Our other consumer-facing brands Proteq Dier & Zorg and Route Mobiel will be relabelled to Reaal and then be used as product names of Reaal Schade.

In order to achieve a successful new organisation, it is necessary to improve our expense ratios which required significant cost reductions and downsizing. By reducing the VIVAT work force by one third in 2016, instead of the previously anticipated three years, we have ended a period of uncertainty for our colleagues and will be able to reap the benefits of the changes at an earlier stage. Structural cost reductions are vital for guaranteeing the future of Reaal Schade in the interest of all our stakeholders, including our customers and employees.

3.1.1. Mission, vision and core behaviors

Reaal Schade has redefined its vision and mission in 2016.

Our vision

Reaal Schade is a leading, trusted and customer-centric financial service provider helping its corporate and individual customers to realize their dreams and insure their risks.

Our mission

Our mission is twofold:

- Reaal Schade will deliver a comprehensive product and service offering to our customers.
- Reaal Schade will leverage the most advanced technologies, resulting in long-term sustainable growth for customers, employees and society at large.

Our core behaviors

Customer centricity and a high performance culture are central aspects of the new strategy. Reaal Schade has also an ambitious task to achieve more for our clients with lower costs. This will ask for a different way of working and changing behavior. For that reason, we have defined five core behaviors for their employees:

- **Change attitude** Our employees have an open mind when it comes to change. We don’t accept something just because "we've been doing this for years".
- **Immediate execution** Our employees do what they can do today to reach our goals. We break down our plans into specific actions.
- **Take responsibility** We know our company goals and your role in achieving these. Employees do what they have to do. They give feedback to others and help everyone in taking their responsibility.
- **Client focus** We think outside in and use common sense. We always ask ourselves if our decisions are in the best interest of our customers.
- **Result driven** We focus on things that clearly help us towards our targets. We finish what we start.

3.1.2. Stabilising the business

Stabilisation was the company's priority in 2016; the first full year following the acquisition of VIVAT by Anbang. Various measures aimed at structural improvement of our foundation were taken. In 2016, a new Chief Executive Officer, a Chief Commercial Officer, and a Chief Operating Officer were appointed. The Executive Board now consists of seven members and is closely connected to the business operations.

Furthermore, the organisation has been restructured from a business unit model to a matrix model based on product lines. All digitisation-related activities have been grouped to form a new unit under the name Digital.

Our product line is represented by a sponsor in the Executive Board. Conversely, the members of the Executive Board are closely involved in the business processes of our product line. A general managers has been appointed for our product lines, who is responsible for the results, with a focus on sales, operations and profitability. It is also his task to simplify and standardise the processes in the product line in a way that benefits the entire organisation.

Structural cost reductions, a lean organisation and streamlined business processes are the key stabilisation components. Due to the increase in our efforts in 2016, the reduction in the number of employees was accomplished significantly sooner than anticipated. The objective to reduce the workforce by the end of 2018 was already achieved in 2016. Some 270 employees have left the workforce of the company, which means that Reaal Schade will continue its operations with a staff of around 825 people (also see section 3.4).

Structural cost reductions have been achieved by means of process standardisation and centralisation. Moreover, the number of offices have been reduced and rationalisation of the IT landscape has resulted in lower IT-related costs. Reaal Schade also strives to further digitise its processes.

We started an extensive programme to reduce the combined ratio at our Property & Casualty product line. Much effort was put into refining the pricing and underwriting capabilities and loss-making portfolios were rationalised and converted. In spite of a large number of exceptional weather claims following severe hailstorms in June, Property & Casualty managed to improve the performance of its underlying portfolio, paving the road for a profitable future.

Measures aimed at structural improvement of profitability in other areas include changes in the asset mix to increase the return on the investment portfolio. The capital injection by Anbang enabled and will enable Reaal Schade to optimise its investment portfolio. Good progress was made in this direction in 2016, as a result of which investment income is expected to increase.

3.1.3. Revitalising and growing the business

Following the completion of the restructuring, resulting in the newly formed product lines and support functions, Reaal Schade is now able to focus on revitalisation and growth.

Our well-known brand Reaal aims at the consumer and the business-to-business market. Our other consumer-facing brands Proteq Dier & Zorg and Route Mobiel will be relabelled to Reaal and then be used as product names of Reaal. We opt for a omnichannel approach in the consumer market in the form of a combination between online (direct) sales, authorised agents and intermediaries.

Reaal Schade aims to strengthen its position in the consumer market. The measures and plans are discussed in more detail in section 3.3.

3.1.4. Accelerating the business

Reaal Schade has the ambition and ability to reach a leading position in the online domain. By leveraging Anbang's knowledge and skills in this field, which it obtained on the Chinese market, we are able to accelerate innovation in this area.

We have set up a new unit, Digital, in which multidisciplinary teams work together on solutions that improve the efficiency of internal business processes and on the development of customer-oriented platforms and products.

One of the objectives for the Digital unit is to achieve structural cost reductions by optimising the IT landscape across the organisation. We plan to migrate the different platforms within our company to a new uniform company-wide platform that will provide higher efficiency at lower cost. We aim to further reduce costs by optimising operational efficiency on the basis of data analytics, self-service and networked business models. Activities in the areas of social media, customer-centric design and active customer communities will contribute to improving our non-financial performance.

Another objective is to further expand our digital direct retail platform and to develop new products and business opportunities, in part through collaboration with non-financial partners. This platform has already been launched under the name 'nowgo'. Nowgo offers customers the possibility to take out insurance policies easily and quickly, without the involvement of an intermediary. We offer existing products as well as products that have been especially developed for this platform, such as POT. POT is a free peer-to-peer insurance platform made available by Reaal Schade. POT enables consumers to share risks together without the intervention of an insurer.

Reaal Schade actively seeks to develop new business opportunities with partners. We are building strong relationships with start-ups in order to boost our innovative power and ability to respond to the latest market trends.

3.2. Corporate Responsibility

Our core activity, providing insurance to our customers, implicitly requires us to take our role in society seriously. Corporate Responsibility (CR) follows from our mission and vision, and forms an integral part of our strategy and business operations. Implementation of CR in the organisation and our operations was started in 2015 and continued in 2016.

3.2.1. CR policy

Our CR policy guides the behaviour of our employees and the manner in which they interact with the outside world. Our customers, employees, processes and social policy are all crucial factors that affect the future of our organisation. Our brands not only serve our customers, they also have impact on and are impacted by society at large and our environment. This interactive process is shown in the following figure.

Figure 1: Conceptual framework for Corporate Responsibility

Our CR activities are aligned and integrated with the mission and core strategy of the company and comprise four main pillars:

> Our impact and relationship with our customers through our brands;
> Our people;
> Our impact on society and the environment through our processes as well as our investments;
> Our (financial) results.

	Our Corporate Responsibility strategy			
Strategic pillars	Our brands & clients	Our people	Our environment	Our result
CR focus areas	Sustainable customer relations	Sustainable employability	Sustainable world	Responsible risktaking
	Customer relations enhancement themes	Sustainable employment	Public debate	Sustainable results

Figure 2: Corporate Responsibility policy framework

Our brands/clients

Our ambition is to create value for our customers and develop sustainable customer relations. Treating Customers Fairly (TCF) is a programme aimed at achieving this. It covers themes that are relevant for customers, such as understandable products, the availability and accessibility of our call centres, and fair pricing. Specific customer relations enhancement themes have been defined for each brand. These range from promoting financial resilience to investing our assets responsibly.

Our people

Our employees are the people who put our mission and vision into practice. We are a business that serves the financial interests of others, which requires 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).

Our environment

We are working towards a sustainable world and promote protection of the environment. Our efforts include carbon emissions reduction, efficient use of paper and waste reduction. We also invest the assets entrusted to us in a sustainable manner by making sure that they meet specific ESG (Environmental, Social, Governance) criteria. Furthermore, Reaal Schade operates at the heart of society. Acting on behalf of our customers, our brands have entered into public debates on topics such as changes to pension legislation, the promotion of sustainable transport and responsible investing.

Our results

We strive for healthy and sustainable long-term results. Within this pillar we focus on activities that have an impact on our customers, our shareholders and our business, such as adequate risk management and achieving sustainable results.

3.2.2. Value creation

The essence of our operations and brands is the creation of value for our stakeholders and society at large. Building on the foundation that was laid in 2015, we have updated and visualised our value creation process (see figure 4). The columns 'impact on clients' and 'impact on society' list the areas in which we create the most value – both in the form of a direct or indirect positive impact and by reducing the impact of negative aspects. This visualisation also provides insight into the inputs required to make our business model work.

The model incorporates the larger context in which we operate in the form of external developments and trends and the impact thereof on our customers.

The supply chain forms the basis of the value creation model. In figure 3 we have depicted our supply chain in detail for VIVAT as a whole, which also applies to Reaal Schade.

Figure 3: Our supply chain

Reaal Schade offers financial services in the Netherlands, mainly consisting of insurances to both business and individuals. The input to our business model encompasses different forms of capital (i.e. human, intellectual and financial capital). Our workforce is situated in the Netherlands. Financial capital is mainly provided by our customers in the form of insurance policy premiums and is a precondition for being able to carry out our core activitiy: Insurance.

REAAL Schade attributes great importance to responsible business conduct. This is reflected in the

VIVAT CR policy framework and our corresponding efforts in areas such as maintaining long-term relationships with our customers, being a good employer, investing in society, adequate risk management and sustainable financial results. The key figures in the middle column of the value creation model (see figure 4) represent the KPI's that VIVAT uses to assess the degree to which VIVAT achieves these and other business objectives. They indicate if the strategy is implemented effectively and if it yields the desired output, including benefits for customers and profits for the shareholder.

The impact of the asset management activities is even greater than the impact of the management of our own business operations. By investing the assets entrusted to us, additional capital is raised. This provides financial stability and the funds to pay out insurance claims, benefits and pensions in the long term. To deliver sustainable performance, investments must meet specific ESG (Environmental, Social, Governance) criteria.

The products that we provide also have an impact, as they contribute to the current and future financial security of our customers and, on a higher level, to financial solidarity and economic growth.

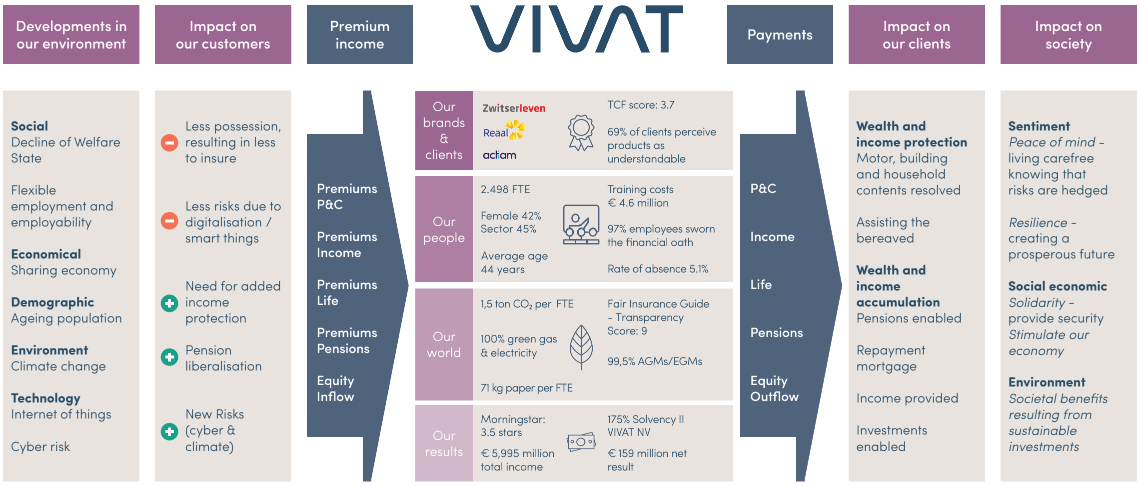


Figure 4: Value creation model

3.2.3. Transparant service

Customer centricity is essential for our success. We strive to earn and maintain the trust of our customers by being fair and transparent in our approach towards them. 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). This is reflected in so called TCF scores.

The AFM tests whether insuring companies are succeeding in treating customers fairly. In connection with this, the regulator publishes TCF scores on a yearly basis. The AFM's TCF monitor surveys can be used to provide consumers with guidance on making qualitative comparisons. Apart from these scores at industry level we monitor customer loyalty and satisfaction within our company at brand level.

Treating Customers Fairly (TCF)

TCF covers themes that are relevant for customers, such as understandable products, the availability and accessibility of our call centres, and fair pricing. On a scale of 1 (low) to 5 (high), VIVAT, and therefore Reaal Schade, has an overall score of 3.7, compared to a market average of 3.8. Improvement has been made compared to 2015, when we scored 3.0 against a market average of 3.4.

TCF scores obtained in subcategories

(Sub)categories	VIVAT score	Average market score
Handling of claims	3.6	3.4
(Aftercare) unit-linked insurance policies	2.6	3.0
Customer contact insurers	4.0	3.8
Complaints management	4.5	4.5
Total score[1]	**3.7**	**3.8**

Score on a scale of 1 (low) to 5 (high).

[1] The average score of the market is based on all examinations and the average of VIVAT only those to which VIVAT participated.

Customer loyalty and customer satisfaction at brand level

We monitor customer loyalty and customer satisfaction by measuring various aspects of our service at brand level.

For Customer loyalty we use the Net Promotor Score, by asking customers one simple question: "How likely is it that you would recommend us to a friend or colleague?" The score can result in both positive (yes, I recommend this firm) as well as negative percentage scores (no, I don't recommend this firm). Our goal is to improve our service levels in such a way customer loyalty will show positive outcomes in the years ahead. Reaal managed to improve the NPS score in 2016.

Customer satisfaction score reflects our customers' satisfaction again on a scale from 1 to 10 (1 = extremely dissatisfied, 10 = extremely satisfied). Reaal's overall customer satisfaction scores show a slight increase, but unfortunately subscores were declining.

Simplicity

Reaal Schade aims to improve the financial resilience of customers, by helping them to make conscious choices about their financial situation. Simplicity in finance is an important principle for Reaal Schade. This means that we stand for products that can be understood by all, that are open, accessible and have no small print, and that come with friendly service and lasting relationships. We try to keep our terms and conditions as transparent as possible and make our products understandable. We communicate this clearly in our product conditions, in letters and on our website. We measure the extent to which our customers feel our communications are transparent and clear. According to 67% of our customers we are succeeding in this area. There is still a significant number of customers who require clearer, more transparent communication.

Customer scores of Reaal Schade

Reaal	2016	2015
Net Promotor Score	-42%	-47%
Customer satisfaction score	7.0	6.9
Percentage of customers who think communication is transparent and clear	67%	73%
Percentage of customers that perceive products as comprehensible	77%	79%

These figures are measured throughout 2016 (Q2 and Q3).

Customer privacy and data protection

Data protection and the privacy of customer data is of key importance for Reaal Schade. Customers can trust on us that their personal data is in safe hands. That is why we have implemented certain policies to protect customer data and customer privacy. The privacy statements as published on our website describes the categories of data we collect, the purposes of the collection of the data and how customers may access such data. Customers can contact us with requests related to that data in writing. Reaal Schade also has a policy to handle data leakages to minimize possible damage to customers. The appointed Data Protection Officer is responsible for compliance with the law.

3.3. Our product line

3.3.1. Property & Casualty

The Property and Casualty (P&C) product line offers property, casualty and disability insurance. Products that enable our customers to live carefree lives.

Objectives for 2016

The P&C market is extremely competitive and mature. In addition, there is a visible shift to online distribution. To attract the right customers at the right price, big data analytics is becoming more and more important.

In view of these developments, one of the objectives specified for this product line is to obtain a leading position in the sector by means of a central digital platform. In order to achieve further growth in this business-to-business market, P&C also focuses on creating durable relationships with distribution partners by developing a strong intermediary proposition for small and medium enterprises. To improve the profitability of this product line, loss-making channels will face strong profitability measures and cost reduction measures will be implemented.

The main goal for 2016 was to create a sturdy foundation that will enable P&C to achieve these objectives in the near future.

Achievements in 2016

Organisational aspects

To lay the foundation for a growing and successful P&C product line, the organisation was restructured with a focus on the underwriting cycle (product development, pricing, underwriting and claims handling) and clear accountability for the results. This resulted in a new operating model that comprises the product categories Motor, Fire and Disability. Furthermore, the sales through our indirect partners was centralised under one director to create focus. The new operating model was developed, approved by the works council and implemented in 2016.

To ensure the effective and efficient functioning of the operating model, the office in Zoetermeer was closed and employees and P&C activities from Zoetermeer and Alkmaar were moved to the head office in Amstelveen. Furthermore, new senior managers were appointed in line with the new operating model. The centralisation in Amstelveen, the more effective operating model and increased automation of claims handling resulted in a reduction of costs. This reduction shall contribute significantly to improving the profitability of the P&C product line in the future.

P&C has also put a lot of effort in refining its pricing and underwriting capabilities. In the Enhanced Underwriting programme, data is centralised and more effective methods are being used for portfolio management and attracting new business.

The portfolio and cost reduction measures resulted in a fundamental improvement of the underlying portfolio. However, the claims to a total amount of € 20 million in connection with the hailstorm in the south of the Netherlands in June had a significant negative impact on the P&C result. Despite this extreme event, the P&C result improved considerably compared to last year.

Disability insurance

Disability insurance yielded profitable and stable results in 2016. Even though the overall market for disability insurance is shrinking, the niche market of white collar workers in which P&C operates is stable, despite changing legislation and a commission ban.

The product conditions and underwriting criteria for disability insurance were adapted with the aim to create a leading proposition in the market for the profitable niche of white collar workers. A successful campaign was launched in autumn. These activities are essential for maintaining and growing the strong disability portfolio.

Plans for the year ahead

In 2017 the main focus for P&C will be to achieve profitable growth. The introduction of new tariffs for the retail products and the development of an SME portfolio should make Reaal Schade a noteworthy participant in the retail and SME markets. After the year of transition and restructuring, P&C will be able to focus on its market position. A commercial battle plan has been developed that includes clear policies, good service and a competitive product portfolio as well as several actions aimed at regaining trust in the market.

Furthermore, big data analytics is the future of P&C insurance. The focus will continue to be on the enhanced underwriting programme to achieve innovative pricing methods and insights. This will improve profitability and generate new business.

As innovation is important for Reaal Schade as a whole. P&C is collaborating with several start-ups to explore new business opportunities.

Based on the results of an assessment carried out by Reaal Schade in 2016 with respect to its collaboration with intermediaries in 2016, we will continue to improve the profitability of our direct and indirect channels by implementing stricter monitoring and control in 2017.

3.4. Our people

Reaal Schade aims to become one of the larger players in the insurance industry. To reach this goal we have put data programmes for employees in place for beginners, intermediates and experts in cooperation with universities in the Netherlands. Next to that Reaal Schade also gives the opportunity for many employees to work together with start-up incubator B.Amsterdam and several start-ups to learn to work agile and innovative.

Customer centricity and a high performance culture are central aspects of the new strategy. To stimulate the new culture, Reaal Schade changed the organisation from a business unit model to a matrix model based on product lines and functional lines. We also downsized the number of employees all with the aim to create a lean organisation. This strategy will ask for a different way of working and changing behavior. For that reason we have defined five core behaviors for their employees. These are Change attitude, Immediate execution, Take responsibility, Client focus and Result driven. Reaal Schade is starting up training programmes to embrace these values.

Workforce

At 31 December 2016, Reaal Schade had an internal workforce of 827 FTEs, compared to 1,100 on 31 December 2015. This reduction of the number of employees was a result of simplification, standardisation and centralisation of processes and rationalisation of the IT landscape. In changing the organisation, the staff care has special attention to make them resilent.

Key figures Human Resources

	2016	2015
Number of internal FTEs	827	1,100
Ratio male-female	58% / 42%	61% / 39%
Female managers	23%	24%
Female members of senior management	24%	20%
Average length of service (years)[1]	13.9	13.8
Average age (years)	44	43
Full-time/part-time ratio	73% / 27%	71% / 29%
Ratio permanent/temporary contract	95% / 5%	93% / 7%
Training costs (million)	€ 4.6	€ 4.8
Sickness absence	5.1%	4.4%
Employees with health check	24%	32%
Employees who indicate the workload is acceptable[2]	n.a.	71%
Percentage of employees that have sworn the bankers oath	97%	92%

1 2015 figure of average length of service is corrected based on new insights.
2 In 2016 no employee survey has taken place.

3.4.1. Employability

To remain competitive Reaal Schade needed to downsize its costs. In reducing the workforce various actions were needed to be taken to support employees who were affected. Employees who were made redundant were offered a package consisting of an above-average severance payment, a period of nine months paid job-to-job coaching to support these employees to find new employment within or outside Reaal Schade. For the remaining workforce, we continue to provide extensive support in areas such as vitality, career development and an inspirational work environment. Other changes, such as modernisation of employment condition and flexibilisation of way of working are part of our future organisational strategy.

Vitality

To ensure the health of its employees and keep absences due to illness to a minimum, we work intensively together with external company doctors and counsellors. VIVAT, and therefore, REAAL Schadeverzekeringen will change to GOED as our health and safety service provider in 2017. We also offer sports facilities and encourage employees to adopt a healthy life style. With the constraint on employees in the reorganisation the illness figure for VIVAT NV as a whole increased to an average of 5.1% (2015: 4.4%). These figures have increased focus by all managers and Human Resources. Resources are made available to develop and implement a programme to get a healthy work life balance.

Personal development

Providing excellent customer service requires motivated and well-trained employees who are empowered to help customers in a correct and professional manner (first time right). To achieve this, employees are encouraged to develop and grow in accordance with mutually agreed targets.

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. In addition to the existing 'Management is a profession' programme for managers, Reaal Schade introduced the High Performance Cycle for senior management in 2016. This cycle integrates performance management, training, career and reward. The aim is to implement the High Performance Cycle for the performance management of all our employees in 2017.

Training and education

Training and education continue to be important, also in view of the restructuring and the resulting matrix structure of the organisation. In accordance with the T-shape model, employees are offered the possibility to further develop their skills and knowledge in their own area of expertise (vertical bar on the T) as well as their ability to communicate and collaborate with colleagues in other departments (horizontal bar on the T). Targets in this area are specified in consultation with each individual employee.

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 qualifications of their staff.

Reaal Schade also invests in training aimed at innovation via the VIVAT Academy. Examples include the state of the art Data Scientist programme in which 11 employees have been enrolled. Knowledge in the area of innovation is also obtained by means of partnerships and collaboration with start-ups and universities.

Employment mobility

Mobility within the company is encouraged and supported. Tools and support in this area are provided by VIVAT's Career Plaza. The team behind Career Plaza was also responsible for helping 800 employees to find new positions inside or outside the VIVAT organisation in connection with the restructuring in 2016.

Being part of the Anbang organisation also offers our employees international perspectives in terms of training and career opportunities.

Flexible working

In 2016, Reaal Schade made a shift from the New Way of Working Practices it had been applying since 2009 to Flexible Working. This means that, depending on the workload, employees are permitted to work less or different hours if possible and are expected to put in extra hours in peak periods. This new approach offers employees a certain amount of flexibility in creating a good balance between their work and their private lives.

3.4.2. Terms and conditions of employment

Our aim to be an appealing employer is reflected in the company's terms and conditions of employment. Variable compensation based on corporate profit is limited. The aim of this policy is to avoid undesired incentives and to ensure that customers are treated fairly in relation to employee remuneration. The pensions of VIVAT's employees have been placed with the SNS REAAL Pension Fund Foundation. This foundation reports independently and publishes its own annual report.

Diversity and inclusivity

Our aim is that its workforce reflects the composition of its target groups. This includes creating a good balance between male and female competencies on the basis of our diversity guidelines for recruitment and career planning. Our policies are also in line with the Work-incapacitated Persons Participation legislation and the workforce diversity monitor.

Since 2014, VIVAT NV - and REAAL Schade by association - is a member of Women in Financial Services (WIFS), a network of women in key positions in the financial services sector, with the aim to strengthen the position of women in our organisation and increase the percentage of women in management positions. On 31 December 2016, the Executive Board of Reaal Schade consisted of two women and five men.

Employee participation

The restructuring and relocation of employees from several buildings to the head office in Amstelveen was an important item on the employee participation agenda in 2016. The changes in the senior management and the implementation of the new matrix structure also affected the organisation of employee participation.

3.5. Financial position

Main developments in 2016

Reaal Schade improved its result from a loss of € 79 million in 2015 to a loss of € 57 million in 2016. This is mainly attributable to improved technical results (€ 13 million) and lower impairments on the disability portfolio (€ 15 million). The improved technical results after reinsurance and after tax were achieved despite the negative impact of claims from the Hail storm in June 2016 (€ 20 million). Premium income of Reaal Schade declined from € 686 million in 2015 to € 666 million in 2016 as a result of stricter acceptance policy, pricing adjustments and the discontinuation of portfolios with adverse claim ratios. The decline of premium income in 2016 (€ 20 million) was substantially lower compared to the decline in 2015 (€ 73 million). The Combined Ratio decreased in 2016 from 109.3% to 104.9% (101.9% excluding severe weather claims). Much effort was put into refining the pricing and underwriting capabilities and loss-making portfolios were rationalised and converted. In 2016 there was a positive result on derivatives of € 18 million, caused by movements in interest.

Balance sheet

Total assets of Reaal Schade remained stable at € 1.9 billion. Subordinated debts increased by € 70 million in 2016. In December 2016 Reaal Schade received an additional subordinated loan by the shareholder. The intangible assets decreased by € 17 million, mainly attributable due to the impairment of the intangible asset of the disability portfolio (€ 12 million).

3.6. Risk and capital management

Risk Management System

Reaal 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.

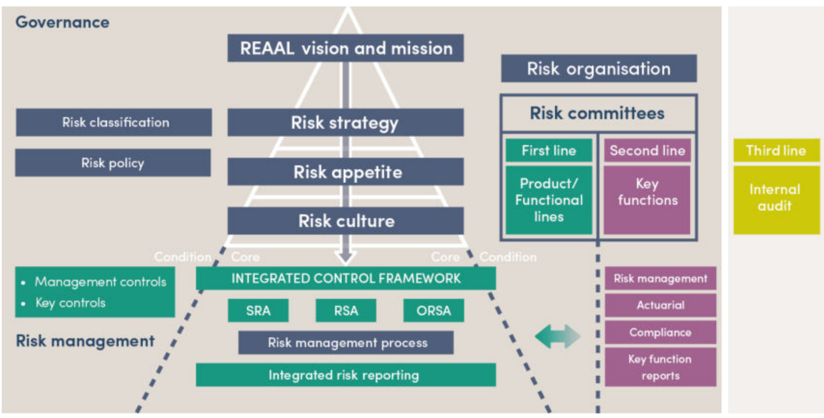


Figure 5: Risk management

The core of the Risk Management System consists of a strategic part Governance at which, 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 all second line SII

Key Functions use the same risk classification, all operations are covered by the Risk Appetite and are aligned by a policy structure. Decision making is in line with the Risk Policy and Risk Appetite of Reaal Schade. Further information about risk and capital management has been included in chapter 7 'Managing risks' in the consolidated financial statements incorporated by reference herein.

Risk Strategy

Reaal 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 Reaal Schade has defined a robust capital position, stable profitability, prudent and consistent risk policy, regulatory compliancy, social responsibility and effective and efficient client solutions. As insurance company Reaal Schade provides guarantees for future payments to its clients and therefore Reaal 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 Appetite, as an integrated part of overall business operations, is determined at least once a year and is subsequently translated into practical risk objectives. Risk Appetite is defined at VIVAT level, which includes the Risk Appetite of Reaal Schade. Subsequently it is developed in more detail on the individual legal entity level in the form of individual quantitative risk limits (including the use of hedges) and qualitative constraints. When implementing the strategy, the Product Lines or legal entities are able to select the best possible products and services, although their selection must be in line with the strategy of VIVAT.

Risk Culture

Culture and conduct in general play a key role in controlling a company, and specific in adequate, risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. Reaal 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, Reaal Schade ensures that senior management and employees on key functions are fit and proper to fulfil their job. Finally, the Remuneration Policy of VIVAT 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 optimization and integration of the risk management.

Integrated Control Framework

Management uses the Integrated Control Framework (ICF) to direct and manage the control and integrity of its business processes, following strategic objectives and Reaal Schade's risk appetite. Management furthermore aims at the ICF helping to promote risk awareness among all employees. The ICF contains core components that together form the basis for sound and controlled business operations within Reaal Schade, and supports being in control. It measures the maturity of risk management and ensures steering on correct and complete risk reports. The ICF monitors process Key Controls and Management Controls.

Risk management process

Reaal Schade assesses underwriting risks by following the Product Approval and Review Process (PARP) for new or adjusted products and management of the existing portfolio. Based on the risk appetite, Reaal 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 ALM-policy covers the management of market risk, credit default risk and liquidity risk. The ALM study seeks to find a balance between risk and return within the preconditions that apply with regard 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 and in the interests of the policyholders. Investments are made exclusively in assets and instruments whose risks are properly identified, measured, monitored, managed, controlled and reported.

Developments

As a result of the acquisition by Anbang and the associated strategic review of VIVAT, Reaal Schade faced a period of transition during 2016. Implementing the new operating model and governance structure, strong focus on cost reduction and earnings models, job uncertainty, changes in products, methodologies and processes, the speed of required changes and cultural changes increased the chance that operational- and compliance risk would materialise. Allthough these risks are adequately addressed, managed and monitored during 2016, managing the impact of these developments remains a challenge looking forward to 2017.

Reaal Schade continued to invest in the development of the control environment by the strategic programmes Solvency II, Data management and Integrated Control Framework, resulting in the improvement of process controls, management information, risk management policies and first line risk maturity. These improvements contribute to managing the increased pressure on the organisation.

Rationalization of the model landscape, in which the number of models is further reduced, is a strategic programme executing in 2017. It contributes to a more efficient and reliable valuation of underwriting and market risks and the solvency, and leads to further reduction of model risk. Given the validation of a number of models in several segments the model risk has been further reduced in 2016. Uncertainty resulting from conversion projects has been mitigated by successful finalising or continuous monitoring, applying workarounds and a process for early provisioning in the accounts.

Capital management

Capitalisation refers to the extent to which Reaal Schade has a capital, which is necessary to cover unforeseen losses or to achieve the strategic objectives of the company. The by Reaal Schade required capital has to meet internal risk appetite standards as well as external requirements of regulators, rating agencies and commercial considerations. Capitalisation generally refers to the relationship between risk-bearing activities and available regulatory capital (own funds).

The objective of the Capitalization Policy is to ensure that there is always sufficient capital to fulfil obligations towards policyholders and all legal requirements. In addition there is a Recovery Plan which describes the procedure that applies in a contingency situation. In its Risk Appetite Statements, Reaal Schade has defined specific triggers that determine whether a contingency situation exists. The management of Reaal Schade uses the ORSA to verify the amount of capital required and this may result in management actions to bring the capital in line with the risk profile and risk appetite. In 2016, Reaal Schade performed an ORSA which was the basis for the Operational Plan and Capital Management.

Solvency II

Solvency II legislation is effective as of 1 January 2016. The supervisory authorities EIOPA and DNB have produced several public guidance notes on the interpretation and Reaal Schade produces all regulatory reports that are mandatory under the Solvency II legislation.

The Solvency II ratio is based on the Solvency Capital Requirement (SCR). Under Solvency II, the supervision of the risks to which an insurer is exposed and the management of those risks plays a more central role. The financial requirements more accurately reflect the risks to which insurers are exposed. Moreover, Solvency II is more in line with market developments and the internal risk management systems used by insurers.

Reaal Schade discloses its solvency position and financial condition on a Solvency II basis by means of public reports. Solvency II applies to the supervised insurance entities and also to the consolidated activities of VIVAT. Other parts of VIVAT are not within the scope of Solvency II.

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

In € millions/percentage	VIVAT	Reaal Schade
Eligible own funds	4,319	554
Consolidated Group SCR	2,466	365
Solvency II Ratio	175%	152%

The internal risk limit for the Solvency II capital ratio is 140%. When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets can be taken into account for determinining the Solvency Capital Requirement (SCR). Tax offsetting (Loss Absorbing Capacity of Deferred Taxes) in the SCR is applied at 0% for VIVAT and its legal entities, except for legal entities with a Deferred Tax Liability (DTL). In these cases tax offsetting equals the net DTL-position. Reaal Schade has a net DTL-position.

Following from the capital injection in 2015 and the strategic review evolving in a new Operational Plan, Reaal Schade is currently changing its risk profile taking into account its Risk Appetite. Supported by ORSA outcomes, Reaal Schade aims to work towards a new Strategic Asset Allocation which leads to more expected return. At the end of 2016, Anbang provided VIVAT with a subordinated Tier 2 loan, partly passed through to Reaal Schade.

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 Non-Life business is sensitive to results in Non-Life claims.

EIOPA has recently evaluated the UFR, and the regulator has proposed to decrease the UFR to 3,65%. Annual changes will not be higher than 15 basis points. In a first step of the phasing-in, the current UFR of 4.2% will be lowered in January 2018 to 4.05%. This will have a negligible impact on net result, own funds and solvency due to the short term nature of the business.

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.

3.7. Our world

The figures in this chapter are based on VIVAT as a whole (not only Reaal Schade).

3.7.1. Reducing CO_2 emissions

One of the key priorities in our efforts towards creating a sustainable world is reducing our carbon emissions.

Our targets for 2016 were:

- a reduction in energy consumption of at least 3% compared to 2015;
- a CO_2 emissions reduction of at least 5% compared to 2015;
- materials used by VIVAT and its suppliers for building management purposes must be sustainable and energy-efficient;
- fully climate-neutral buildings and operations;
- a reduction in the use of paper in communication with customers by 5% compared to 2015.

By consuming less energy we also reduce our CO_2 emissions. We are committed to achieving our energy efficiency targets, which are monitored by the government.

Green energy is purchased directly from the source (Dutch wind and Dutch biogas) and the remaining CO_2 emissions from our business operations and mobility are offset by purchasing credits that meet at least the Fair Gold Standard (GS). In 2016, the ratio of remaining Gold Standard Ghana project credits to Fair GS credits in South Africa and India was 1:4. Reaal Schade also provided support for a start-up project involving the roll-out of one of the most energy efficient cookstoves available today, which is produced by African Clean Energy in Lesotho.

Nonetheless, carbon offsetting does not absolve us of the need to cut our own CO_2 emissions, particularly those caused by travel (mobility) on the part of our own employees. Therefore Reaal Schade makes efforts to change policies towards mobility, the use of (lease) cars and stimulate public transport.

As in previous years, our ISO 9001 and 14001 certification was audited and confirmed by an external party. This guarantees that our quality management and environmental management systems are up to standard.

To provide assurance with respect to the sustainability of our buildings, we have obtained BREEAM certification for all the buildings of which we are the principal user.

Energy consumption of offices

in gigajoules	2016	2015
Energy consumption kWh per FTE	1,821	1,833
Energy consumption kWh per m^2	123	130

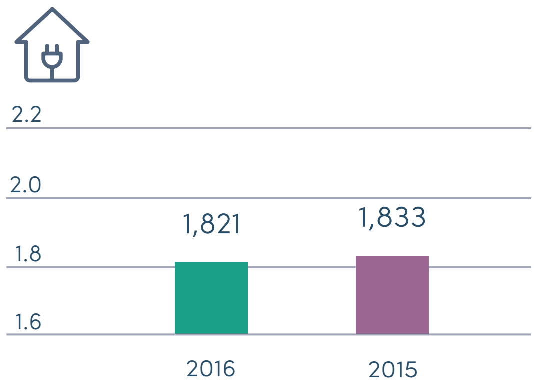


Figure 6: Energy consumption per kWh per FTE

Share of green energy offices

% of total	2016	2015
% Sustainable electricity	100%	100%
% Sustainable gas	100%	100%

We report our CO_2 emissions in accordance with the principles of the Greenhouse Gas Protocol (www.ghgprotocol.org).

This means that we report per scope:

- Scope 1: report on CO_2 emissions as a consequence of our direct energy consumption (e.g. gas);
- Scope 2: report on CO_2 emissions as a consequence of our indirect energy consumption (e.g. electricity);
- Scope 3: report on our indirect CO_2 emissions (e.g. due to commuting, air travel, leased cars, etc.).

Commuting by car is still the main cause of CO_2 emissions for our business. Measures taken in 2016 aimed at reducing these emissions included a stricter parking policy, increasing the proportion of (semi-) electrical cars in our fleet of leased vehicles and encouraging the use of public transport by providing our employees with NS Business Cards for travel by train. In 2017, our CO_2 standard for leased cars will be reduced from 125 grams to 120 grams per kilometre.

Carbon emissions (tonnes)

	2016	2015
Business travel and commuting	3,867	5,086
Operations	135	168
Net emissions	4,002	5,254
Gross emissions[1]	7,078	8,315

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

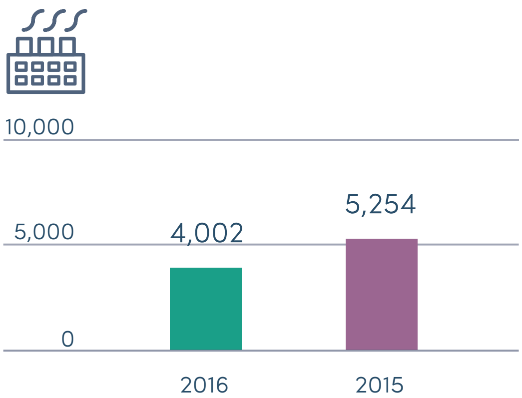


Figure 7: Net carbon emissions (tonnes)

3.7.2. Paper

Our continued effort to lower our paper consumption resulted in a 16% reduction from 226 tonnes in 2015 to just 191 tonnes in 2016. In 2015 we already reduced paper consumption by almost 40% compared to 2014. A number of processes was digitised and less paper was used for commercial purposes. It is expected that, as a result of further digitisation of processes, paper consumption will be reduced by another 5% by the end of 2017.

Paper consumption

	2016	2015
Paper consumption in tonnes	191	226
Paper consumption in kg/FTE	71	84

3.7.3. Waste

The objective for 2016 was to reduce the amount of waste resulting from our operations by 5%. The total volume of waste was down by 15.8% compared to 2015. This good result can be contributed mainly to our continued effort to create awareness among employees and the further reduction in paper consumption.

Reaal Schade also stimulates suppliers to reduce packaging materials and to take responsibility for the disposal of these materials. Furthermore, waste is recycled where possible. The proportion of waste that was recycled and reused in the form of raw material or sources of green energy was 80%. This is a slight increase compared with 2015 (78%).

Waste

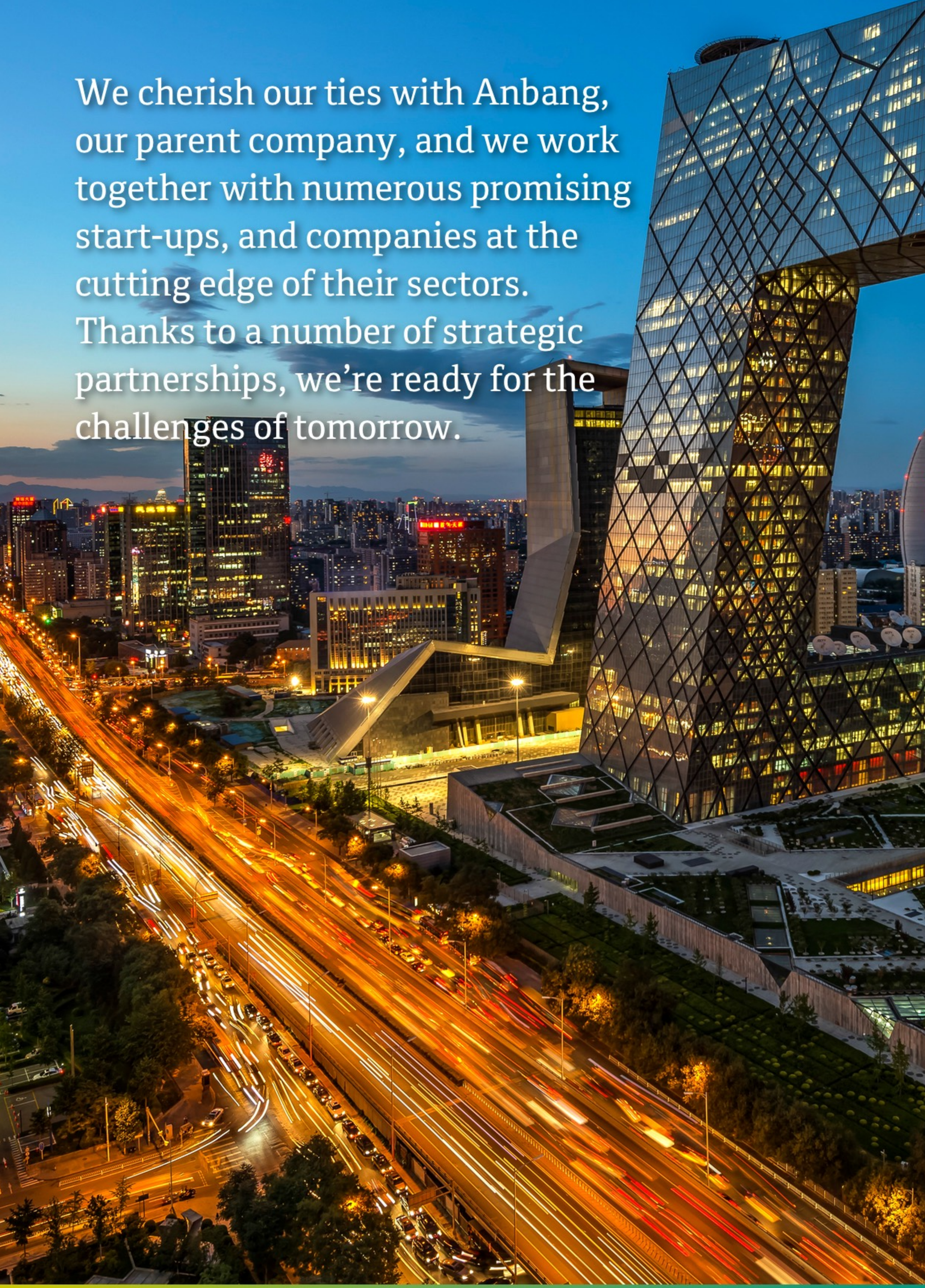
in kg/FTE	2016	2015
Residual waste	21	29
Organic waste	7	13
Industrial waste	1	1
Paper and cardboard waste	28	34
Plastics	6	7

3.7.4. Sustainable purchasing

All our suppliers are requested to comply with our General Procurement Terms and Conditions as revised in 2016. 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 (inluding CO_2 emissions, paper consumption, energy consumtion and waste) and
- have implemented or are in the process of implementing similar sustainable procurement terms and conditions in their own organisation.

We cherish our ties with Anbang, our parent company, and we work together with numerous promising start-ups, and companies at the cutting edge of their sectors. Thanks to a number of strategic partnerships, we're ready for the challenges of tomorrow.



4. Corporate governance

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

In 2016, VIVAT transformed itself into a matrix organisation including both product and functional lines focusing on profitable growth. The governance model of Reaal Schade reflects this matrix organisation with a product line being sponsored by one of the board members and functional lines included in the various product line management teams. This allows control at the level of management teams which allows the product lines, risk and finance to work together at this level. At the level of the board, sponsorship of the EB of product line and functional lines by EB members ensure that EB members 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 2016 consists of the following:

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

Figure 8: The Executive Board of Reaal Schade. From left to right: Feng Zhang, Yinhua Cao, Ron van Oijen, Lan Tang, Wendy de Ruiter-Lörx, Xiao Wei Wu and Jeroen Potjes.

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 program at the Wharton Business School. Van Oijen started his career at Aegon and ING in the Netherlands. He subsequently worked as CEO of ING Life and ING Bank in the Czech Republic and Slovakia for four years. In Seoul and Hong Kong he lead the large ING Life branches in India, Thailand and South Korea as Regional CEO. After which he was appointed as CEO of AIA Thailand, whose four million customers make it the largest insurance company in the country.

Other positions
Member of the Board Association of Insurers

F. (Feng) Zhang (1979) is Chief Of Staff. He has a master's degree in Business Administration, obtained from University of Northumbria at Newcastle, and a bachelor's degree in Literature, obtained from Wuhan University, China. Zhang joined Anbang since 2005, worked as director of claims, underwriting, sale and marketing, human resource. In 2011 he commenced as Deputy General Manager of Anbang Property and Casualty Insurance, His last positions were that of General Manager of Property and Casualty Insurance, Director of Anbang Life Insurance, Director of Anbang Annuity Insurance and Chairman of the Board at Anbang Property and Casualty Insurance.

Other positions
Non-executive Director Anbang Belgium Holding NV

L. (Lan) Tang (1974) is Chief Risk Officer. He has a bachelor degree in Engineering, obtained from Beijing University of Aeronautics and Astronautics, and a master 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 a Big 4 accounting firm in China. In 2010, he started to work as the chief actuary of Anbang Life, where his last position was the Deputy General Manager and Chief Actuary of Anbang Life.

Other positions

Chairman of Fidea NV
Non Executive Director of Bank Nagelmackers NV
Member of the Supervisory Board of ACTIAM Beleggingsfondsen NV
Member of the Supervisory Board of SNS Beleggingsfondsen NV

X.W. (Xiao Wei) Wu (1980) is Chief Transformation Officer. She has a bachelor's degree in International Finance from the University in Fudan, China, and a master's degree in Business Administration obtained at the China Europe International Business School (CEIBS) in Shanghai. She worked as Associate Principal at McKinsey Shanghai, for the insurance sector in Asia. In 2012, Wu commenced at the Anbang Group 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.

Other positions

Chairwoman Anbang Belgium Holding NV

Y. (Yinhua) Cao (1975) is Chief Financial Officer. He has a bachelor's degree in International Finance from the Shanghai University of Economics and Finance. Mr. Cao started his career in financial service sector at PwC 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 programs for insurers. His last position with PwC was the Partner of the Financial Service Group. At Anbang, Mr. Cao commenced as managing director of Anbang Asset Management Hong Kong and Finance Director of the Anbang Insurance Group.

Other positions

Member Financial and Economic Committee Association of Insurers

W.M.A. (Wendy) de Ruiter-Lörx (1973) is Chief Commercial Officer. 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 NN, where she worked for 15 years, fulfilling various managerial roles in operations and product and process management at both Nationale-Nederlanden and ING Bank. Her most recent position at NN was that of director of retail clients. Ms 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.

Other positions

Member Distribution Committee Association of Insurers

J.C.A (Jeroen) Potjes (1965) is Chief Operating Officer. He earned a Master's degree in Econometrics from Erasmus University Rotterdam as well as a doctorate in Economics from the same university. Mr 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 CFO 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, Mr Potjes also sat on the Supervisory Board of ING Re, ING's reinsurance business. Mr Potjes joined Anbang in 2015, one of his roles being that of non-executive on the Managing Board of Anbang Belgium Holdings NV.

Other positions

Non-Executive Director Anbang Belgium Holding NV
Member committee Life insurance Association of Insurers
Member of the board SIVI

On 14 March 2016, Albert Bakker stepped down as COO and acting CEO of Reaal Schade.

Reaal Schade has implemented all procedural and operational matters regarding the code of conduct of insurers 2015 together with the VIVAT Code of Conduct. Reaal Schade adheres to these.

Reaal Schade aims to have gender balance of having at least 30% men or 30% women on the board of directors. Reaal Schade currently has close to 30% females on the board.

Our formal rules are set out in the articles of association and regulations of the Executive Board of Reaal Schade. Under the articles of association and regulations, certain decisions of the Executive Board are subject to the approval of the shareholder and/or the Supervisory Board of the relevant company or companies. The members of the Executive Board of Reaal Schade are the same as the management board members of VIVAT, SRLEV and Proteq. This means that the shared management principle has been implemented at all management levels.

As part of our continuing education program, 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 and are provided by internal and external speakers. The continuing education program this year included sessions such as Asset Management, Privacy regulations, Treating Customers Fairly, Solvency II and In Control Framework. In addition the Executive Board attended an Executive program at Harvard University.

4.2. The Supervisory Board

J.J. (Jan) Nooitgedagt stepped down as chairman of the Supervisory Board as of 1 December 2016

M.W. (Maarten) Dijkshoorn has worked in the financial services industry for more than 40 years. From 2002 to 2009, he was CEO and COO of Eureko BV (Achmea). Prior to this, Mr. Dijkshoorn held various management function within NN for 25 years. M.W. (Maarten) Dijkshoorn was appointed as a member and as chairman of the Supervisory Board on 23 December 2016. He is member of the Remuneration and Nomination Committee and member of the Risk Committee.

Other positions
Chairman of the Supervisory Board of de Goudse Verzekeringen NV
Supervisory Board Member of Monuta and MediRisk (until 01-05-2017). Mr. Dijkshoorn was member of the Supervisory Board of PGGM until 31 December 2016.

M.R. (Miriam) van Dongen has over 20 years experience in corporate finance, business strategy and in the financial services industry. In 2007 Miriam van Dongen joined Achmea BV/Eureko BV as CFO of the Health division. She now holds various supervisory boards positions and is the chair of the audit committees of these supervisory boards. Miriam van Dongen was appointed as delegated Supervisory Board member in October 2015 and this ended on 23 May 2016. The function of a Supervisory Board member delegate comprises intensified supervision of and advice to the Executive Board. Miriam van Dongen was appointed as member of the Supervisory Board on 26 July 2015. She is chairman of the

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.C.K. (Kevin) Shum	British	Member	26 July 2015
P.P.J.L.M.G. (Pierre) Lefèvre	Belgian	Member	26 July 2015

Audit Committee and member of Risk Committee and Remuneration and Nomination Committee.

Other positions
Supervisory Board member and chair of the audit committee of PGGM NV
Supervisory Board member and chair of the audit committee of CB Logistics
Supervisory Board member of Optiver
Member of the board of trustees of Dutch Kidney Foundation (until August 2016)

M. (Ming) He studied at Bowling Green State University in the United States and earned a master's degree in geology and environmental science in 1992. Ming earned a second master's degree in International Financial Management at the America International Management Business School in 1998. He started his career at the International Investment Department of Parker Hannifin, where he served as General Manager in 2009. He joined Anbang Insurance Group Co., Ltd. as Investment Director of Anbang Property & Casualty Insurance Co., Ltd. As of 2012, he was appointed as Director and General Manager of Anbang Asset Management. M. (Ming) He also serves as non-executive director and general manager of Fidea NV. He was appointed as member of the Supervisory Board on 26 July 2015. He is member of the Audit Committee.

Other positions
Director and General Manager of Anbang Asset Management
Non-executive Director of Fidea NV
CEO Anbang Belgium Holding NV
Chairman Bank Nagelmackers NV

K.C.K. (Kevin) Shum joined Anbang Insurance Group in March 2014. He currently serves as the General Counsel for Anbang Group Holdings Co. Limited, overseeing its legal and compliance functions in respect of the group's direct investments, investment funds, private equity funds and general asset management activities. In addition, Mr. Shum serves as a Supervisory Board Director of Reaal Schade (being the Chairman of the Remuneration and Nomination Committee), as a Non-Executive Director of Bank Nagelmackers NV (being Chairman of the Nomination Committee), as a Non-Executive Director of Fidea NV (being Chairman of the Nomination and Governance Committee).

With over 20 years' experience in the legal and financial sectors, Mr. Shum has extensive experience in advising multinational corporations, funds and investment banks on legal issues relating to securities, investments, derivatives, financing, acquisitions, mergers, restructurings, liquidation and corporate governance. Mr. Shum also regularly advises on regulatory matters pertaining to the HK Securities and Futures Commission, the HK Takeovers Code and the HK Listing Rules.

Prior to joining Anbang, Mr. Shum worked as a private practitioner at Coudert Brothers LLP and at Jun He Law Offices, as counsel for private equity firm Alliance Capital Asia Limited and a hedge fund under CCIB Asset Management Co. Limited. Mr. Shum received his Master of Science in Financial Analysis from the Hong Kong University of Science and Technology, attended Guildford College of Law, UK and received his Bachelor of Laws from the University of Southampton, UK. He is a qualified Solicitor of England & Wales, a Solicitor of Hong Kong, a Member of the Chartered Institute of Arbitrators and is a Chartered Financial Analyst.

Other positions
Chief Legal Officer of Anbang Group Holdings Co. Limited
Non-executive Director of Bank Nagelmackers NV
Non-executive Director of Fidea NV

P.P.J.L.M.G. (Pierre) Lefèvre studied Mechanical Engineering and Industrial Administration, as an Internal Auditor at Unilever before joining AXA Belgium NV in Belgium as a Financial Controller. He continued his career with AXA Belgium in the role of General Manager of Individual Life and, later on, as General Manager of the P&C Personal Lines. In 1994, he moved on to AXA UK plc. as CEO of the P&C insurance business and was subsequently appointed as Chairman of the Management Board. In 1998 he was appointed as CEO of AXA Netherlands. Between

2002 and 2013, Pierre Lefèvre fulfilled various CEO roles in subsidiaries of Groupama SA. Since 2013, Pierre has acted as independent non-executive director of Hasting Insurance 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. *P.P.J.L.M.G.* (Pierre) Lefèvre was appointed as memberof the Supervisory Board on 26 July 2015. He is chairman of the Risk Committee and member of the Audit Committee.

Other positions
Independent non-executive Director and Chair of the Risk Committee of Hastings Group Holdings PLC
Independent non-executive Director and Chair of the Risk Committee of Advantage Insurance Company Limited
Independent non-executive Director of Anbang Belgium Holding NV
Senior Advisor at Eurohold Corporate Finance

The Supervisory Board meets on a regular basis in accordance with an annual schedule. The Supervisory Board has drawn up regulations that elaborate and expand on a number of 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.

The Supervisory Board has three committees; Audit Committee, Risk Committee and Remuneration and Nomination Committee.

4.3. Report of the Supervisory Board

Composition and 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, as mentioned. 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.

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

Facilitated by an external assessor the Supervisory Board assessed its functioning in order to evaluate the functioning of the Supervisory Board as a whole, the functioning of the individual committees, the individual supervisory directors, the relationship with the Executive Board and the effectiveness of continuing education. The evaluation found that the Supervisory Board has performed according to what can be expected, with sufficient expertise and involvement from the individual members. The Supervisory Board has played a constructive role in building the foundation for future progress.

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 program 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 program relates to relevant developments within Reaal Schade and the financial sector, corporate governance in general and of the financial sector in particular, towards customers in relation to the duty of care, integrity, risk management, financial reporting and audit. The participation of the members of the Supervisory Board in the program was monitored.

These continuing education sessions included – amongst others – topics on Solvency II, Internal Control Framework, Tax Recoverability, Shadow accounting and Treating Customers Fairly.

Important topics and key discussions

Meetings of the Supervisory Board

The reorganisation of VIVAT, and therefore Reaal Schade, has devoted attention of the Supervisory Board and therefore the formal meetings of the Supervisory Board were every six weeks and several additional meetings and conference calls were held. The Supervisory Board was generally complete during these meetings. None of the Supervisory Board members were frequently absent at these meetings and in all meetings there was sufficient presence to constitute a valid quorum. Based on a frequency of meetings once every six weeks (two days including meetings with the committees), it is fair to say that the attendance rate was high, demonstrating the strength of the Supervisory Board's commitment.

During the formal meetings the Supervisory Board was updated on topical issues and several presentations were given on business activities and key initiatives of the product lines. In the meetings, the Supervisory Board was briefed on the discussions and resulting recommendations from Supervisory Board committee meetings.

In 2016 the Supervisory Board discussed and approved several items, such as amendments of the regulations of the Executive Board and regulations of the Supervisory Board .

Additional topics discussed by the Supervisory Board were:

- New operating model
- Reorganisation
- Solvency II programme
- Internal Control Framework
- Adjustment RAS
- Optimisation of our investment portfolio
- Fair value measurement of investments
- Models and data quality
- Investment insurance policies

The Supervisory Board had regular contact about these subjects with other stakeholders of Reaal Schade, 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 our policy 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 whereas at least two members of these committees have profound knowledge of respectively risk management / risk control and internal control / reporting.

Cooperation between the Supervisory Board and the committees was 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 wants to express its gratitude to Jan Nooitgedagt for his contribution to Reaal Schade and its predecessors. The Supervisory Board also wants to thank the Executive Board and all employees for their efforts in 2016 under challenging circumstances.

Amstelveen, the Netherlands, 31 May 2017
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.4. Remuneration

4.4.1. Remuneration policy Reaal Schade in general

Introduction

The remuneration policy has been applied in full throughout 2016 to all employees of Reaal Schade and its subsidiaries, including their executive directors.

Principles

The 2016 remuneration policy:

- Is compliant with the prevailing laws, rules and regulations;
- Reflects the interests of all the company's stakeholders: customers, employees, shareholders and society at large;
- Is in line with, and contributes to, robust and effective risk management and, concurrently, does not encourage the taking of more risks than acceptable for the company’s businesses;
- Supports the ability to attract and retain qualified people, taking into account the specific position occupied by the company in the Netherlands.

Governance

The Supervisory Board is responsible for the implementation of the remuneration policy for the members of the Executive Board that has been adopted by the General Meeting. The Supervisory Board is also responsible for approving the remuneration policy for the senior management and the remuneration policy for other employees.

The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares proposals in respect of the remuneration policy for decision-making by the Supervisory Board. Where necessary, the ReNomCo is assisted by independent remuneration experts. The control departments and various other corporate support departments (Finance, Legal, Human Resources and Audit) are also involved, each in their own capacity. As a result of this combined vetting, a governance framework has been prepared.

Identified Staff

Reaal Schade designates Identified Staff (employees who could have a material impact on the institution's risk profile) on the basis of applicable laws, rules and regulations.

The list of Identified Staff is kept up-to-date by Human Resources, is checked for its accuracy at least once a year by the control departments and, thereafter it is presented to the Supervisory Board. There are specific rules regarding variable remuneration for employees who qualify as Identified Staff (for further information, see section Performance targets and variable remuneration for Identified Staff).

Composition of primary remuneration

Primary remuneration is made up of fixed and variable pay. Fixed pay is generally made up of 12 times an employee's fixed monthly salary, plus 8% holiday allowance and a 13th-month payment.

Level of fixed remuneration

The fixed monthly salary depends on the level of the employee’s role and the employee's knowledge and experience. A decision as to whether to increase the fixed monthly salary is made once a year, on the basis of a competency assessment. The fixed monthly salary is capped and cannot further increase if the maximum salary in the applicable pay scale has been reached.

Level of variable remuneration

Performance targets for Collective Labour Agreement employee are set in the first quarter of a performance period (a calendar year). In 2016, KPI’s for senior management were set after the first quarter.

After completion of the performance period, the extent to which the performance targets have been achieved are used as the basis for determining whether an employee is eligible for variable remuneration. In 2015 the 'Act on the Remuneration

Policy of Financial Undertakings' (Wet beloningsbeleid financiële ondernemingen, Wbfo 2015 stb 2015, 45) came into effect. The maximum levels of variable compensation as defined by Wbfo were implemented for the majority of Reaal Schade's organizations for the full performance year 2016.

Performance targets and variable remuneration for Identified Staff

For employees who qualify as Identified Staff, specific rules apply for setting performance targets, determining the extent to which performance targets have been achieved, and setting and paying variable remuneration.

Performance targets are divided into financial and non- financial targets and into collective and individual targets. The performance targets are subject to an ex- ante risk assessment.

Variable remuneration is awarded, when applicable, in two portions: an immediate/unconditional portion (60%) and a deferred/ conditional portion (40%). 50% of the variable remuneration of Identified Staff is paid in cash and 50% in share based instruments.

The deferred portion of variable remuneration is paid out over a period of three years following the year of award.

The deferred portion of variable remuneration may be adjusted downwards on the basis of the outcome of an ex-post risk assessment. A downward adjustment will be made if the employee has not met relevant standards in respect of competence and appropriate conduct, or was responsible for behaviours that led to a material deterioration in VIVAT NV's financial position (Dutch Financial Undertakings (Remuneration Policy) Act (Wft), Section 1:127, Subsection 2).

Reaal Schade has the power to claw back all or part of any variable pay awarded on the basis of incorrect information about the achievement of targets or the occurrence of circumstances that were a precondition for the variable pay to be awarded (Section 135(8), Book 2 of the Dutch Civil Code). Whole or partial claw back will take place if the employee has not met relevant competence standards and standards for appropriate conduct, or was responsible for behaviours that led to a material deterioration in the financial position of Reaal Schade (Wft, Section 1:127, Subsection 3). This claw back may relate to both the immediately payable portion and the deferred portion of the variable remuneration. Any tax consequences of the claw back of variable remuneration will be borne by the employee concerned.

Performance targets for employees in control functions

Employees in control functions are remunerated on the basis of the achievement of the targets set for their positions, regardless of the business units over which they exercise supervision and the results of the business operations. Employees in control functions are defined as all employees working within the Financial Risk, Non-Financial Risk and Audit departments.

Pension

Almost all employees of Reaal Schade are members of the same pension scheme. The scheme qualified as a defined contribution scheme for IAS 19 purposes. The contributions are paid by Reaal Schade. Employees contribute towards the contributions in the form of a member's contribution that is deducted from the monthly salary. Reaal Schade does not award any discretionary pensions.

The tax law was amended to disallow a tax-facilitated pension accrual on an employee's salary in excess of € 101,519 (2016). In dialogue with the trade unions, the premium rate paid by the employer in 2016 on salaries in excess of € 101,519 was converted into an allowance of 16.35% on an employee's pensionable salary in excess of € 101,519. This agreement will be in effect until 1 January 2018, after which it will be subject to review.

Special arrangements on employee benefits

At Reaal Schade, special arrangements for employee benefits refer to retention and/or welcome bonuses and material redundancy packages. Reaal Schade exercises great restraint when agreeing such arrangements. Such arrangements may be agreed only if they are in accordance with legislation and regulations.

Number of employees with total remuneration in 2016 exceeding € 1 million

In 2016, no Reaal Schade employee received a total remuneration exceeding € 1 million.

Variable remuneration for the year 2016

An annual performance-related bonus for 2016 was paid to employees governed by the Collective Labour Agreement. In total an amount of € 3.5 million was paid to 2,549 employees.

For Senior Management of Reaal Schade no variable remuneration related to performance 2016 was awarded taking into account the redundancy program of over 1,200 employees. In 2016 Reaal Schade made a retention bonus available to 7 employees for a total amount of € 0.5 million of which 50% in cash and 50% in share based instruments. The retention bonus is partly unconditionally awarded (60%) and partly conditionally (40%). The payment of this variable remuneration will be made in accordance with the rules governing the payment of variable remuneration and the applicable variable remuneration policy for Identified Staff.

Other remuneration information

For further information regarding remuneration of Identified Staff we refer to the website of VIVAT. Information will be published as of May 2017.

4.4.2. Actual remuneration (former) members of the Executive Board

Reference is made to Note 15 Related parties (Intragroup balances with key management personnel of Reaal Schade) for the actual remuneration (former) members of the Executive Board.

4.4.3. Actual remuneration (former) members of the Supervisory Board

Reference is made to Note 15 Related parties (Intragroup balances with key management personnel of Reaal Schade) for the actual remuneration (former) members of 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 2016	31 December 2015	1 January 2015[2]
> Assets				
Intangible assets	1	3,648	20,750	51,357
Investments in associates	2	6,886	6,501	6,101
Investments	3	1,635,537	1,614,618	1,430,732
Derivatives	4	30,292	9,254	-
Deferred tax assets	5	3,175	3,335	11,005
Reinsurance contracts	10	116,853	112,666	124,943
Corporate income tax		18,173	23,672	26,671
Other assets	6	48,672	39,347	33,189
Cash and cash equivalents	7	53,043	60,517	53,870
Total assets		**1,916,279**	**1,890,660**	**1,737,868**
> Equity and liabilities				
Share capital[3]		10,898	10,898	10,898
Share premium reserve		398,823	398,823	198,823
Fair value reserve		87,864	79,882	85,480
Other reserves		-84,281	-5,846	101,163
Retained earnings		-56,654	-78,918	-107,203
Shareholders' equity	**8**	**356,650**	**404,839**	**289,161**
Subordinated debt	9	150,000	80,000	-
Insurance liabilities	10	1,236,901	1,247,638	1,289,982
Provision for employee benefits	11	26,036	24,083	-
Derivatives	4	10,321	7,133	-
Deferred tax liabilities	5	17,166	15,772	29,110
Amounts due to banks	12	22,309	2,351	-
Other liabilities	13	96,896	108,844	129,615
Total equity and liabilities		**1,916,279**	**1,890,660**	**1,737,868**

1 The references next to the balance sheet items relate to the notes to the consolidated statement of financial position in Section 6.3
2 Pursuant to the requirements of IFRS 1, the statement of financial position as at 1 January 2015 is presented, since these are the first IFRS financial statements presented by Reaal Schade.
3 The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.

5.2. Consolidated statement of profit or loss

In € thousands	Notes[1]	2016	2015
> Income			
Premium income		666,098	686,212
Less: Reinsurance premiums		44,998	45,779
Net premium income	**17**	**621,100**	**640,433**
Fee and commission income		28	57
Fee and commission expense		15	7
Net fee and commission income	**18**	**13**	**50**
Share in result of associates		974	828
Investment income	19	19,008	22,817
Result on derivatives	20	17,864	685
Total income		**658,959**	**664,813**
> Expenses			
Technical claims and benefits	21	438,373	443,906
Acquisition costs for insurance activities	22	128,880	143,619
Staff costs	23	109,779	120,183
Depreciation and amortisation of non-current assets		6,719	5,632
Other operating expenses	24	31,348	23,891
Impairment losses	25	12,308	31,913
Other interest expenses	26	7,145	1,115
Total expenses		**734,552**	**770,259**
Result before taxation		**-75,593**	**-105,446**
Taxation	27	-18,939	-26,528
Net result continued operations for the period		**-56,654**	**-78,918**

[1] The references next to the income statement items relate to the notes to the consolidated statement of profit or loss in Section 6.3.

5.3. Consolidated statement of total comprehensive income

Consolidated statement of other comprehensive income

In € thousands	2016	2015
> Items that will not be reclassified subsequently to profit or loss		
Changes in valuation of defined benefit pension plan	483	194
Total items never reclassified to profit or loss	**483**	**194**
> Items that may be reclassified subsequently to profit or loss		
Change in fair value reserve	7,982	-5,598
Total items that may be reclassified to profit or loss subsequently	**7,982**	**-5,598**
Other comprehensive income (after taxation)	**8,465**	**-5,404**

Statement of total comprehensive income

In € thousands	2016	2015
Net result for the period	-56,654	-78,918
Other comprehensive income (after taxation)	8,465	-5,404
Total comprehensive income	**-48,189**	**-84,322**
> Attribution:		
Total comprehensive income attributable to the shareholder	-48,189	-84,322

5.4. Consolidated statement of changes in equity

Consolidated statement of changes in shareholders' equity 2016

In € thousands	Issued share capital[1]	Share premium	Sum fair value reserves	Sum other reserves	Shareholders' equity
Balance as at 1 January 2016	**10,898**	**398,823**	**79,882**	**-84,764**	**404,839**
Unrealised revaluations	-	-	8,311	-	8,311
Realised gains and losses through profit or loss	-	-	-329	-	-329
Changes in valuation of defined benefit pension plan	-	-	-	483	483
Amounts charged directly to total equity	**-**	**-**	**7,982**	**483**	**8,465**
Net result 2016	-	-	-	-56,654	**-56,654**
Total result 2016	**-**	**-**	**7,982**	**-56,171**	**-48,189**
Capital issue	-	-	-	-	**-**
Total changes in equity 2016	**-**	**-**	**7,982**	**-56,171**	**-48,189**
Balance as at 31 December 2016	**10,898**	**398,823**	**87,864**	**-140,935**	**356,650**

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

Reaal Schade announces that, similar to 2015, no dividend will be distributed for 2016.

Statement of revaluation reserves and other reserves 2016

In € thousands	Fair value reserve	Sum revaluation reserves	Other reserves	Result of the year	Sum other reserves
Balance as at 1 January 2016	**79,882**	**79,882**	**-5,846**	**-78,918**	**-84,764**
Transfer of net result 2015	**-**	**-**	-78,918	78,918	**-**
Transfers 2015	**-**	**-**	**-78,918**	**78,918**	**-**
Unrealised revaluations	8,311	**8,311**	-	-	**-**
Realised gains and losses through profit or loss	-329	**-329**	-	-	**-**
Changes in valuation of defined benefit pension plan	-	-	483	-	**483**
Amounts charged directly to total equity	**7,982**	**7,982**	**483**	**-**	**483**
Net result 2016	-	-	-	-56,654	**-56,654**
Total result 2016	**7,982**	**7,982**	**483**	**-56,654**	**-56,171**
Capital issue	-	-	-	-	**-**
Total changes in equity 2016	**7,982**	**7,982**	**-78,435**	**22,264**	**-56,171**
Balance as at 31 December 2016	**87,864**	**87,864**	**-84,281**	**-56,654**	**-140,935**

Consolidated statement of changes in shareholders' equity 2015

In € thousands	Issued share capital	Share premium	Sum fair value reserves	Sum other reserves	Shareholders' equity
Balance as at 1 January 2015	**10,898**	**198,823**	**85,480**	**-6,040**	**289,161**
Unrealised revaluations	-	-	-4,991	-	-4,991
Realised gains and losses through profit or loss	-	-	-607	-	-607
Changes in valuation of defined benefit pension plan	-	-	-	194	194
Amounts charged directly to total equity	**-**	**-**	**-5,598**	**194**	**-5,404**
Net result 2015	-	-	-	-78,918	**-78,918**
Total result 2015	**-**	**-**	**-5,598**	**-78,724**	**-84,322**
Capital issue	-	200,000	-	-	**200,000**
Total changes in equity 2015	**-**	**200,000**	**-5,598**	**-78,724**	**115,678**
Balance as at 31 December 2015	**10,898**	**398,823**	**79,882**	**-84,764**	**404,839**

Statement of revaluation reserves and other reserves 2015

In € thousands	Fair value reserve	Sum revaluation reserves	Other reserves	Result of the year	Sum other reserves
Balance as at 1 January 2015	**85,480**	**85,480**	**101,163**	**-107,203**	**-6,040**
Transfer of net result 2014	**-**	**-**	-107,203	107,203	**-**
Transfers 2014	**-**	**-**	**-107,203**	**107,203**	**-**
Unrealised revaluations	-4,991	**-4,991**	-	-	**-**
Realised gains and losses through profit or loss	-607	**-607**	-	-	**-**
Changes in valuation of defined benefit pension plan	-	-	194	-	**194**
Amounts charged directly to total equity	**-5,598**	**-5,598**	**194**	**-**	**194**
Net result 2015	-	-	-	-78,918	**-78,918**
Total result 2015	**-5,598**	**-5,598**	**194**	**-78,918**	**-78,724**
Capital issue	-	-	-	-	**-**
Total changes in equity 2015	**-5,598**	**-5,598**	**-107,009**	**28,285**	**-78,724**
Balance as at 31 December 2015	**79,882**	**79,882**	**-5,846**	**-78,918**	**-84,764**

5.5. Consolidated cash flow statement

In € thousands	2016	2015
> Cash flow from operating activities		
Operating profit before taxation	-56,654	-78,918
> Adjustments for:		
Depreciation and amortisation of non-current assets	6,719	5,632
Changes in insurance liabilities (claims paid)	-443,496	-467,730
Changes in other provisions	1,953	24,083
Impairment charges / (reversals)	12,308	31,913
Retained share in the result of associates	-385	-400
Taxes (paid) received	5,499	2,999
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	19,958	2,351
Change in other operating activities	402,161	414,347
Net cash flow from operating activities	**-51,937**	**-65,723**
> Cash flow from investment activities		
Sale and redemption of investments and derivatives	1,094,729	569,301
Purchase of investments and derivatives	-1,120,266	-776,931
Net cash flow from investment activities	**-25,537**	**-207,630**
> Cash flow from finance activities		
Issue of shares and share premium	-	200,000
Issue of subordinated loans	70,000	80,000
Net cash flow from financing activities	**70,000**	**280,000**
Cash and cash equivalents 1 January	60,517	53,870
Change in cash and cash equivalents	-7,474	6,647
Cash and cash equivalents as at 31 December	**53,043**	**60,517**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	35,076	36,542
Dividends received	164	667
Interest paid	692	983

6. Notes to the consolidated financial statements

6.1. Accounting policies for the consolidated financial statements

6.1.1. General information

Reaal Schade incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. Reaal Schade 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, which ultimate parent is Anbang Insurance Group Co. Ltd with its headquarters in Beijing, People's Republic of China.

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

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

The main accounting policies used in the preparation of the consolidated financial statements are set out in this section.

Adoption of the financial statements

The consolidated financial statements of Reaal Schade for the year ended on 31 December 2016 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 31 May 2017. The financial statements will be submitted to the General Meeting of Shareholders for adoption.

6.1.2. Basis of preparation

Statement of IFRS compliance

Reaal 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 2016

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2016 the following new or amended standards and interpretations of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), applicable to Reaal Schade, have become effective:

- Amendments to IAS 27: Equity Method in Separate Financial Statements (issued on 12 August 2014)

For more details on the application of this amendment, refer to the section 9.1 Accounting policies to the company financial statement.

Relevant new standards, amended standards and interpretations of existing standards effective date on or after January 2017

Relevant new standards, amendments to existing standards and interpretations, published prior to 1 January 2017 and effective for reporting periods beginning on or after 1 January 2017, were not early adopted by Reaal Schade.

Other developments

Conjunction IFRS 9 Financial Instruments with the new standard on insurance contracts 'IFRS 17'

The financial instruments standard, IFRS 9 Financial Instruments, was issued in July 2014 and has an effective date of 1 January 2018.

In December 2015 IASB issued an exposure draft on IFRS 4, the new standard on insurance contracts. In this exposure draft entities, whose business model is predominantly to issue insurance contracts, are allowed to defer the implementation of IFRS 9 until 1 January 2021 or sooner if IFRS 17 is implemented at an earlier date. In the first half of 2016, IASB introduced the quantitative threshold for the assessment of the predominance criterion. Predominance will be 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. 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. Reaal Schade's predominance ratio is well above 90%.

Reaal Schade has decided that the implementation of IFRS 9 is to be postponed until 1 January 2021 or earlier if IFRS 17 is implemented at an earlier date.

IFRS 15 Revenue from Contracts with Customers

This standard becomes effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue on contracts other than insurance contracts and financial instruments. The implementation of IFRS 15 is not expected to have a significant impact on the consolidated financial statements of Reaal Schade.

IFRS 16 Leases

This standard was issued in January 2016 and has an effective date of 1 January 2019.

According to this new standard, lessees (the user of the asset) no longer make a distinction between finance and operational lease. 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 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 a result Reaal Schade is required to reassess all operational lease contracts in order to determine whether they need to be recognised in the statement of financial position or qualify for the exemption (short lease term, low value). In addition to these activities, lease contracts also need to be examined in order to unbundle possible service-components. The outcome of this analysis is not expected to have material consequences for Reaal Schade.

IFRS 17 Insurance contracts

On 18 May 2017, the IASB published IFRS 17 Insurance Contracts. IFRS 17 will be mandatorily effective for annual reporting periods beginning on or after 1 January 2021. Once effective, IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the General (building block) Model, supplemented by:

- A specific adaptation for contracts with direct participation features (the Variable Fee Approach)
- A simplified approach (Premium Allocation Approach) mainly for short-duration contracts

IFRS 17 will fundamentally change the financial reporting of companies issuing insurance contracts. Reaal Schadeverzekeringen will assess the impact of IFRS 17 in conjunction with IFRS 9.

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.

The consolidated financial statements have been prepared on an accrual basis.

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 Reaal Schade. All financial data presented in euros is rounded to the nearest million, unless stated otherwise. Counts are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

Further details on the accounting policies applied to the conversion of transactions and translation of items in the statement of financial position denominated in foreign currencies are provided in the section 'Foreign currencies' below.

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 Reaal 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,

> Reaal 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 Reaal Schade to make estimates and assumptions based on complex and subjective opinions and best estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the reporting date, and on the reported income and expenses for the reporting period. In this process, management judges situations on the basis of available information and financial data that could potentially change in the future. Although estimates are made to the best of the management's knowledge, actual results may 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 provisions for bad debts, the fair value of assets and liabilities, and impairments.

Fair value measurement

Application

The consolidated financial statements have been prepared using the measurement bases of fair value, amortised cost or historical cost.

Fair value is used to measure:

> investments at fair value through profit or loss;
> investments classified as available for sale;
> derivatives.

All other financial assets (including loans and advances) and liabilities are measured at amortised cost.

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. Reaal 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 Reaal Schade governance procedures.

6.1.4. Basis for consolidation

Subsidiaries

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

> Reaal Schade has power over a company or entity by means of existing rights that give Reaal Schade the current ability to direct the relevant activities of the company or entity;
> Reaal Schade has exposure or rights to variable returns from its involvement with the investee; and
> Reaal 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 Reaal 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 Reaal Schade. Non-controlling interests are disclosed separately in the consolidated statement of financial position and the statement of profit or loss.

Investments in associates

Associates are entities in which Reaal Schade can exercise significant influence on the operating and financial policies, but over which it has no control.

The consolidated financial statements include Reaal Schade's total share of profit of associates from the date that Reaal Schade acquires significant influence to the date that significant influence ceases to exist. The profit is accounted for using the equity method, after adjustments to comply with Reaal Schade's accounting policies, where needed.

Upon recognition, associates are initially accounted for at their acquisition price (including transaction costs) and subsequently measured using the equity method. This measurement also includes goodwill paid upon acquisition less accumulated impairment losses, if applicable.

Under the equity method, Reaal Schade's share of profit or loss of associates is recognised in the statement of profit or loss within share of profit of associates. Other changes in equity of associates are recognised directly in Reaal Schade's other comprehensive income.

If the carrying amount of the associate is nil, no further losses are accounted for, unless Reaal Schade has entered into commitments, made payments on its behalf or acts as a guarantor.

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.

Unrealised gains on transactions between Reaal Schade and its associates are eliminated to the extent of Reaal Schade's interest in these investments. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that no evidence of impairment exists.

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 Reaal 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.

Other intangible assets

Other intangible assets include assets with finite and indefinite useful lives, such as distribution channels, trademarks and client portfolios. Assets with finite useful lives are either amortised using a straight-line method over their useful lives or on the basis of the economic benefits flowing from the underlying portfolios, i.e. usually between five and 15 years. If objective evidence points to a possible impairment loss, an impairment test is performed. Assets with indefinite useful lives are not amortised. They are tested for impairment at the end of each reporting period.

Impairment of intangible assets

An intangible asset is subject to impairment if its carrying amount exceeds the recoverable amount from continued use (value in use) or sale of the asset. The recoverable amount of assets is estimated if indications of an impairment of the asset exist. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Software and other intangible assets

Capitalised costs of software, distribution channels and client portfolios are reviewed for indications of impairment at the end of each reporting period. Other intangible assets are tested for impairment once every year. The recoverable amount is determined based on value in use.

Reversal of impairment losses on intangible assets

Impairment losses on intangible assets are reversed if there is proof that a change in the estimates of the recoverable amount occurred after the impairment loss was recognised. The reversal is included within impairment charges in the statement of profit or loss. The carrying amount after reversal can never exceed the amount before recognition of the impairment loss.

Investments in associates

For details, see Section 6.1.4 (Basis of consolidation) under ‘Investments in associates’.

Financial instruments

Reaal Schade classifies its financial assets in one of the following categories: (1) at fair value through profit or loss, (2) available for sale, or (3) 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.

Reaal 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

Fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it was designated as such upon initial recognition. Financial assets are only designated at fair value through profit or loss if:

- this eliminates or considerably limits an inconsistency in valuation or recognition between assets and liabilities that would otherwise arise; or
- Reaal Schade manages and assesses them on a fair value basis.

Financial assets classified as fair value through profit or loss are recognised at fair value. Realised and unrealised gains and losses are recognised directly in the statement of profit or loss within investment income.

Interest income earned on securities is recognised within investment income. Dividends received are also recognised within investment income.

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. Reaal 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 the saving components of 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, Reaal 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'. To the extent a positive revaluation reserve exists regarding investments available for sale, impairment losses are charged against the revaluation reserve within shareholders' equity.

Investments in debt securities

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.

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 on debt securities and equity investments
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.

Investments in mortgages
Where mortgage loans are concerned, an allowance for impairment is recognised if objective evidence exists that Reaal 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.

If the amount of the impairment loss subsequently decreases due to an event occurring after the impairment, the previously recognised impairment loss is reversed in the statement of profit or loss to that extent. When a loan is uncollectable, it is written off against the relevant allowance for impairment. The subsequently collected amounts are deducted from the addition to the allowance for impairment in the statement of profit or loss.

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. Reaal 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 are accounted for in the statement of profit or loss as gains and losses on financial instruments.

Loans and advances to banks

These assets concern receivables from banks with a remaining maturity of one month or more, not including interest- bearing securities. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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.

Other assets

Reinsurance contracts

Inbound reinsurance contracts

Other insurers use these contracts to transfer the insurance risk associated with their own insurance contracts to Reaal 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, Reaal 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 Reaal Schade is entitled by virtue of its reinsurance contracts are accounted for as reinsurance assets, after deduction of reinsurers' share in technical claims and benefits expenses. These assets comprise short-term receivables from reinsurance companies (presented under other assets) and long-term receivables (presented under reinsurance contracts). These receivables depend on the expected claims and benefits arising from the insurance contracts that Reaal Schade has reinsured.

The amounts receivable from, and payable to, reinsurance companies are determined in accordance with the terms and conditions of each reinsurance contract. Reinsurance obligations relate primarily to premiums payable for reinsurance contracts.

Receivables from reinsurers are assessed for potential impairment due to credit risk, at the reporting date.

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

Share capital and share premium reserve

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

Other reserves

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.

Other reserves

Other reserves mainly comprise Reaal Schade's retained earnings.

Subordinated debt

Subordinated debt includes the subordinated bonds and private loans issued by Reaal 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

Liabilities arising from insurance contracts (further referred to as insurance liabilities) are recognised in the statement of financial position. Insurance contracts are contracts that concern the transfer of significant insurance risk. These contracts can also involve investment risks. Reaal Schade issues non-life insurance contracts. Reaal 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.

Reaal Schade has continued applying the accounting policies in use at the time of transition to IFRS to for the valuation of the insurance contract liabilities since the first adoption of IFRS (the historically applied accounting policies).

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.

The details of the valuation principles for non-life insurance contracts and the corresponding liability adequacy test are described below.

Non-life insurance

General

These are insurance contracts that provide coverage not related to the life or death of insured persons. Apart from disability contracts, the non-life contracts (also referred to as property and casualty or P&C) generally provide coverage for a relative short period of time. Reaal Schade's non-life 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).

Liabilities arising from non-life insurance contracts are determined as specified 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 current risks (unexpired risk reserve)

The provision for current 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 by reference to the carrying amount of the previous month, adjusted – if necessary – for significant developments in the current month. The provision is reassessed semi-annually, based on business information as well as actuarial analysis derived from the most recent liability adequacy test.

Provision for co-insurance

Reaal Schade participates in co-insurance contracts, mainly relating to the transport 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 transport 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. Upon measurement, projected subrogation amounts are deducted from this experience-based provision.

IBNR methodology

Except for disability contracts the IBNR is based on historically observed claim development statistics on which estimates are made for claims that have occurred, but are not yet (enough) reported at the reporting date. For disability contracts the IBNR is determined as a fixed amount. The IBNR provision is reassessed each quarter, based on business information.

Discounting

In accordance with general practice in the industry, Reaal Schade does not discount the liabilities arising from non-life insurance contracts mentioned in this section, with the exception of disability claims provisions. This also applies to the provision for claims handling costs. Changes in estimates are recognised in the statement of profit or loss in the period in which the estimates are adjusted.

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, claim payments, expenses and commissions. The cash flows are discounted using the swap curve including ultimate forward rate. 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 2016 it is set at 4% (2015: 4%).

The test is performed on an aggregate level; deficits in portfolios are compensated with a surplus in another. 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 include salaries, short paid leave, profit-sharing and bonus schemes. 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 N.V. 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 deferred members 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, Reaal 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 Reaal Schade.

A net asset due to a surplus is recognised only if Reaal 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. This can be caused by actuarial gains and losses, gains and losses on plan assets, or by employers' contributions stipulated in the financial agreement with the pension fund. This agreement is based on the pension liability calculated by the pension fund according to the specific parameters prescribed by DNB, among other aspects.

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 Reaal 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 pension 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 Reaal 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 Reaal 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 using the discount rate of the gross defined benefit entitlements) 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. 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.

Other provisions

General

Provisions are recognised if there is a legally enforceable or constructive obligation arising from events in the past, the settlement of which is likely to require an outflow of assets, and a reliable estimate of the obligation can be made.

Provisions are measured at the present value of the expected future cash flows. Additions and any subsequent releases are recognised in the statement of profit or loss.

Legal provisions

At the reporting date, Reaal Schade recognises a provision for the estimated liability with respect to ongoing legal proceedings. The provision comprises an estimate of the legal fees and payments due in the course of the legal proceedings, to the extent that it is more likely than not that an obligation exists at the reporting date. A provision is recognised if the obligation can be reliably estimated.

Financial liabilities

Derivatives

See the 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 Reaal 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 includes income from asset management, commissions from the insurance operations and other related services offered by Reaal Schade. These are recognised in the reporting period in which the services are performed. Commission 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.

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.

Share in result of associates

This item represents Reaal Schade's share of profit of its associates. If the carrying amount of an associate falls to zero, no further losses are recognised, unless Reaal Schade has entered into commitments or made payments on its behalf.

To the extent necessary, the accounting policies applied by associates have been adjusted to ensure consistency with those applied by Reaal Schade.

Investment income

Investment income consists of interest, dividend 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 Reaal Schade will conclude a particular loan agreement. If the commitment expires without Reaal 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.

Dividend

Dividend 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-dividend.

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 revaluations, 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 LAT-deficit are also presented as this item. Technical claims and benefits are presented net of reinsurers' share.

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.

Depreciation and amortisation of non-current assets

This item comprises amortisation of intangible assets. For details on depreciation and amortisation, 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 charges

This item includes downward revaluations 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 6.1.5 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 Reaal 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 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 Reaal 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 taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

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

6.2. Acquisitions and disposals

There were no acquisitions or disposals in the financial year 2016.

6.3. Notes to the consolidated financial statements

1. Intangible assets

Breakdown of intangible assets

In € thousands	2016	2015
Software	3,648	5,443
Other intangible assets	–	15,307
Total	**3,648**	**20,750**

Statement of changes in intangible assets 2016

In € thousands	Software	Other intangible assets	Total
Accumulated acquisition costs	5,443	106,772	**112,215**
Accumulated amortisation and impairments	–1,795	–106,772	**–108,567**
Balance as at 31 December	**3,648**	**–**	**3,648**
Balance as at 1 January	5,443	15,307	**20,750**
Changes in the composition of group companies	–	–	**–**
Purchases	–	–	**–**
Amortisation capitalised costs	–1,071	–	**–1,071**
Amortisation purchases	–724	–3,000	**–3,724**
Impairments	–	–12,307	**–12,307**
Balance as at 31 December	**3,648**	**–**	**3,648**

Of the carrying amount of the software at year-end 2016, € 2,624 thousand (2015: € 3,663 thousand) related to self-developed software.

Other intangible assets relate to the occupational disability insurance portfolio, which was recognised in the insurance business following acquisitions in 2007. After an impairment in 2016 of € 12,307 thousand (2015: € 32,000 thousand) the amount at year-end was nil.

Statement of changes in intangible assets 2015

In € thousands	Software	Other intangible assets	Total
Accumulated acquisition costs	10,326	106,772	**117,098**
Accumulated amortisation and impairments	-4,883	-91,465	**-96,348**
Balance as at 31 December	**5,443**	**15,307**	**20,750**
Balance as at 1 January	-	51,357	**51,357**
Changes in the composition of group companies	5,884	-	**5,884**
Purchases	8	-	**8**
Amortisation capitalised costs	-268	-	**-268**
Amortisation purchases	-181	-4,050	**-4,231**
Impairments	-	-32,000	**-32,000**
Balance as at 31 December	**5,443**	**15,307**	**20,750**

The amount of € 5,884 relates to the transfer of the QIS application from VIVAT NV to Reaal Schade in the first half year 2015.

2. Investment in associates

Statement of changes in associates

In € thousands	2016	2015
Balance as at 1 January	6,501	6,101
Share in result of associates	975	828
Dividend received	-590	-428
Balance as at 31 December	**6,886**	**6,501**

The statement below shows the principal associate (CED) at year-end 2016 and year-end 2015. CED's share capital is comprised entirely of ordinary shares and Reaal Schade holds an interest in those shares. CED's operations are carried on in the country where it is registered. The shares of the associate are not listed.

Overview of investment in associates 2016 and 2015

Name	Country of incorporation	% of ownership interest	Measurement method
CED Holding BV	NL	23%	Equity

CED is a claims specialist. Its customers are insurance companies, self-insured entities and other parties that are affected by claims, such as financial service providers, leasing companies and government agencies. CED's expertise spans all areas of the claims handling process, from reporting to recovery. It helps its customers to resolve their claims quickly, effectively and responsibly. Its service encompasses both complex claims and high volumes of relatively simple claims. CED is strategic to Reaal Schade as it helps Reaal Schade gain access to experience in efficient claims handling. CED's financial year ends on 30 June.

Condensed statement of financial position of CED Holding BV

In € thousands	CED Holding BV 30 June 2016	CED Holding BV 30 June 2015
Non-current assets	14,607	11,448
Current assets	65,622	51,123
Total assets	**80,229**	**62,571**
Current liabilities	42,754	25,583
Non-current liabilities	5,502	7,354
Total liabilities	**48,256**	**32,937**
Net assets	**31,973**	**29,634**

Condensed statement of profit or loss of CED Holding BV

In € thousands	CED Holding BV 2015/2016	CED Holding BV 2014/2015
Revenue	135,046	107,959
Expenses	128,161	103,131
Result continued operations	**6,885**	**4,828**
Taxation	1,843	1,171
Net result continued operations	**5,042**	**3,657**

The information above was derived from CED's financial statements; it does not represent the share of Reaal Schade of its profits. The financial statements have been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

No loans had been granted to the associates at year-end 2016 (2015: nil). Reaal Schade had no investment commitments to the associate at year-end 2016 (2015: nil).

3. Investments

Investments

Breakdown of investments

In € thousands	2016	2015
Available for sale	1,633,680	1,610,144
Loans and receivables	1,857	4,474
Total	**1,635,537**	**1,614,618**

Available for sale: listed and unlisted

In € thousands	Shares and similar investments 2016	Shares and similar investments 2015	Fixed-income investments 2016	Fixed-income investments 2015	Total 2016	Total 2015
Listed	-	-	1,385,804	1,458,606	**1,385,804**	**1,458,606**
Unlisted	230,230	151,538	17,646	-	**247,876**	**151,538**
Total	**230,230**	**151,538**	**1,403,450**	**1,458,606**	**1,633,680**	**1,610,144**

The unlisted shares and similar investments mainly consist of liquidity funds. The increase of unlisted fixed-income investments in 2016 was primarily caused by the acquisition of unlisted mortgage-backed-securities (MBS) and asset-backed-securities (ABS).

Available for sale: Statement of changes

In € thousands	Shares and similar investments 2016	Shares and similar investments 2015	Fixed-income investments 2016	Fixed-income investments 2015	Total 2016	Total 2015
Balance as at 1 January	151,538	32,733	1,458,606	1,393,137	**1,610,144**	**1,425,870**
Purchases and advances	163,601	128,000	956,542	648,901	**1,120,143**	**776,901**
Disposals and redemptions	-86,561	-12,700	-1,005,433	-556,197	**-1,091,994**	**-568,897**
Revaluations	1,654	3,505	8,865	-11,300	**10,519**	**-7,795**
Impairments	-2	-	-	-	**-2**	**-**
Amortisation	-	-	-13,756	-13,974	**-13,756**	**-13,974**
Other	-	-	-1,374	-1,961	**-1,374**	**-1,961**
Balance as at 31 December	**230,230**	**151,538**	**1,403,450**	**1,458,606**	**1,633,680**	**1,610,144**

The high level of turnover is due to the continuous re-investment of cash collateral in money market funds.

Loans and receivables: Statement of changes

In € thousands	Loans and receivables 2016	Loans and receivables 2015
Balance as at 1 January	4,474	4,862
Purchases and advances	123	29
Disposals and redemptions	-2,735	-403
Amortisation	5	-3
Other	-10	-11
Balance as at 31 December	**1,857**	**4,474**

Available for sale: measurement

In € thousands	Shares and similar investments 2016	Shares and similar investments 2015	Fixed-income investments 2016	Fixed-income investments 2015	Total 2016	Total 2015
(Amortised) cost	205,274	128,187	1,306,785	1,369,071	**1,512,059**	**1,497,258**
Revaluation	24,956	23,351	78,138	69,634	**103,094**	**92,985**
Accrued interest	-	-	18,527	19,901	**18,527**	**19,901**
Total	**230,230**	**151,538**	**1,403,450**	**1,458,606**	**1,633,680**	**1,610,144**

Changes in the (amortised) cost of shares and similar investments are the result of the re-risking strategy.

Reaal Schade has lent some of its investments. The carrying amount of lent investments at 31 December 2016 was € 124,481 thousand (2015: € 36,856 thousand). The lending periods are open-ended and can be terminated on request. Reaal Schade charges a lending fee in 2016 of € 94,412 thousand (2015: € 105,437 thousand).

Some other investments have been pledged as collateral for amounts due to banks (repos). The carrying amount (market value) of investments pledged as collateral at 31 December 2016 was nil (2015: € 17,676 thousand).

Investment portfolio

Fixed-income investment portfolio (available for sale)
Investments of insurance business

In € thousands	2016	2015
Investments		
- Available for sale	1,403,450	1,458,606
- Loans and receivables	1,857	4,474
Interest-bearing investment portfolio	**1,405,307**	**1,463,080**

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

Breakdown of interest-bearing investment portfolio (sector)

In € thousands	2016		2015	
Sovereign	1,091,908	78%	1,123,696	77%
Corporate bonds - financial sector	188,963	13%	209,645	14%
Corporate bonds - non-financial sector	103,482	7%	110,340	8%
Mortgage backed securities	19,097	1%	17,307	1%
Other	1,857	0%	2,092	0%
Total	**1,405,307**	**100%**	**1,463,080**	**100%**

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

Breakdown of interest-bearing investment profile (rating)

In € thousands	2016		2015	
AAA	894,829	64%	944,094	65%
AA	202,078	14%	218,540	15%
A	125,317	9%	117,437	8%
BBB	179,154	13%	180,984	12%
< BBB	2,133	0%	-	0%
Not rated	1,796	0%	2,025	0%
Total	**1,405,307**	**100%**	**1,463,080**	**100%**

Of the interest-bearing investment portfolio, 87% of investments had an A rating or higher (year-end 2015: 88%).

The table below contains the breakdown of the interest bearing investment portfolio by geographic area. The interest-bearing investment portfolios of Reaal Schade have predominantly European debtors. No single debtor represents an interest of more than 6% in the interest-bearing investment portfolio with the exception of the German Government and the Dutch Government.

Breakdown of interest-bearing investment profile (geographic)

In € thousands	2016		2015	
Netherlands	557,468	40%	670,359	46%
Germany	352,340	25%	275,265	19%
France	87,596	6%	85,411	6%
Austria	83,090	6%	89,106	6%
Spain	73,070	5%	76,805	5%
United States of America	41,258	3%	37,417	3%
Italy	39,068	3%	40,415	3%
United Kingdom	36,975	3%	27,860	2%
Belgium	32,190	2%	30,258	2%
Sweden	12,036	1%	9,679	1%
Other	90,216	6%	120,505	8%
Total	**1,405,307**	**100%**	**1,463,080**	**100%**

The category "others" also consists of European and other international institutions that cannot be allocated to a single country (2016: € 43,285 thousand / 2015: € 37,595 thousand).

Loans and receivables: investments

In € thousands	2016	2015
Mortgages	–	2,381
Private loans	1,857	2,093
Total	**1,857**	**4,474**

Investment of mortgage business per risk category

In € thousands[1]	2016	2015
Mortgages < 75% of foreclosure value	–	1,381
Mortgages > 75% of foreclosure value	–	–
Mortgages with National Mortgage Guarantee	–	1,000
Residential property in the Netherlands	**–**	**2,381**
Specific provision for bad debts	–	–
Total	**–**	**2,381**

1 Mortgages are recognised in the statement of financial position under investments in loans and receivables.

4. Derivatives

Breakdown of derivatives

	Positive value		Negative value		Balance	
In € thousands	2016	2015	2016	2015	2016	2015
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	30,292	9,254	10,321	7,133	**19,971**	**2,121**
Total	**30,292**	**9,254**	**10,321**	**7,133**	**19,971**	**2,121**

Statement of changes in derivatives

In € thousands	2016	2015
Balance as at 1 January	2,121	–
Revaluations	17,850	2,121
Balance as at 31 December	**19,971**	**2,121**

For more information about derivatives see Note 20 Results on derivatives and Note 29 Hedging .

5. Deferred tax assets and liabilities

Breakdown of deferred tax assets and liabilities

In € thousands	2016	2015
Deferred tax assets	3,175	3,335
Deferred tax liabilities	–17,166	–15,772
Total	**–13,991**	**–12,437**

Origin of deferred tax assets and tax liabilities 2016

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	–11,693	1,291	–2,126	–12,528
Derivatives	–171	–4,467	–	–4,638
Insurance contracts	2,769	83	–	2,852
Provision for employee benefits	484	–	–161	323
Other	–3,826	3,826	–	–
Total	**–12,437**	**733**	**–2,287**	**–13,991**

Origin of deferred tax assets and tax liabilities 2015

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	–16,271	1,593	2,985	–11,693
Derivatives	–	–171	–	–171
Insurance contracts	11,005	–8,236	–	2,769
Provision for employee benefits	–	484	–	484
Other	–12,839	9,013	–	–3,826
Total	**–18,105**	**2,683**	**2,985**	**–12,437**

Breakdown of tax-effect changes shareholders' equity

In € thousands	2016	2015
Change in fair value reserve	2,287	–2,985
Total	**2,287**	**–2,985**

The corporate income taxes are irrevocable for the years up to and including 2013.

6. Other assets

Breakdown of other assets

In € thousands	2016	2015
Receivables from policyholders	674	864
Receivables from intermediaries	1,974	6,747
Receivables from reinsurers	7,594	6,512
Receivables from direct insurance	**10,242**	**14,123**
Receivables from group companies	16,373	–
Accrued interest	3	6
Other accrued assets	22,054	25,218
Total	**48,672**	**39,347**

7. Cash and cash equivalents

Breakdown of cash and cash equivalents

In € thousands	2016	2015
Short-term bank balances	53,043	60,517
Total	**53,043**	**60,517**

The group companies of Reaal Schade have a joint credit facility of € 2 million in total with ABN AMRO.

8. Equity

Breakdown of equity

In € thousands	2016	2015
Equity attributable to the shareholder	356,650	404,839
Total	**356,650**	**404,839**

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

The change in Equity attributable to shareholders in 2016 was caused by net (negative) result 2016 (€ 56.654 thousand) and the change in Other Comprehensive Income (€ 8,465 thousand). For further details on group equity, see Section 5.4, Consolidated statement of changes in equity.

9. Subordinated debt

Breakdown of subordinated debt

In € thousands	2016	2015
Private loans	150,000	80,000
Total	**150,000**	**80,000**

Subordinated private loans

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

On 31 December 2016 the subordinated private loans comprised two loans of € 80 million and € 70 million.

On 29 December 2015, VIVAT granted a loan to Reaal 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 granted a loan to Reaal 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.

10. Insurance liabilities and reinsurance share

In 2016, the total amount of gross reserves is € 1,236,901 thousand (2015: € 1,247,638 thousand). Net of the reinsurance share of € 116,853 thousand (2015: € 112,666 thousand), the net amount at year-end 2016 is € 1,120,048 thousand (2015: € 1,134,972 thousand).

Breakdown of insurance liabilities and its reinsurers share per type of reserve

	Gross		Reinsurance	
In € thousands	2016	2015	2016	2015
Premium shortfalls and current risks	46,380	47,016	–	–
Unearned premiums	65,063	74,454	1,011	1,236
Claims payable	879,778	860,475	85,118	78,482
Claims incurred but not reported	245,680	265,693	30,724	32,948
Total	**1,236,901**	**1,247,638**	**116,853**	**112,666**

The breakdown per line of business is included below.

Break down net reserve

	2016			2015		
In € thousands	Net reserve	% Net reserve	% Gross earned premium	Net reserve	% Net reserve	% Gross earned premium
Fire	119,693	11%	31%	108,333	10%	28%
Accident and health	399,813	35%	17%	390,114	34%	17%
Motor	407,481	36%	30%	424,619	37%	32%
Transport	40,951	4%	5%	53,133	5%	6%
Other	152,110	14%	17%	158,773	14%	17%
Total	**1,120,048**	**100%**	**100%**	**1,134,972**	**100%**	**100%**

Statement of changes in provision for claims payable

In € thousands	Gross		Reinsurance	
	2016	2015	2016	2015
Balance as at 1 January	860,475	877,979	78,482	88,105
Reclassification	1	-35,113	-	-
Reported claims, current period	408,016	406,179	24,858	16,997
Reported claims, prior periods	55,572	103,534	6,394	1,338
Claims paid, current period	-216,560	-226,275	-11,929	-12,525
Claims paid, prior periods	-253,046	-275,212	-14,181	-21,232
Interest added	9,120	9,383	1,494	1,599
Other movements	16,200	-	-	4,200
Balance as at 31 December	**879,778**	**860,475**	**85,118**	**78,482**

Statement of changes in provision for claims incurred but not reported

In € thousands	Gross		Reinsurance	
	2016	2015	2016	2015
Balance as at 1 January	265,693	319,375	32,948	35,576
Additions during the year	54,450	54,799	1,612	2,246
Added to the results	-74,463	-108,481	-3,836	-4,874
Balance as at 31 December	**245,680**	**265,693**	**30,724**	**32,948**

Claim history (gross)

The run-off of the gross claims reserve for previous claim years is shown in the table below.

Claim history 2016 (gross)

In € thousands	Reserve as of 1 January	Addition of interest	Payments	Reserve as of 31 December	Claims run-off result
Claim years:					
2007 and earlier	340,372	4,556	34,049	315,541	-4,662
2008	24,046	183	4,545	19,313	371
2009	34,295	234	7,974	24,538	2,017
2010	46,997	402	8,059	37,014	2,326
2011	81,005	516	15,495	62,672	3,354
2012	93,412	611	16,722	78,247	-946
2013	119,394	814	24,574	91,734	3,900
2014	151,899	776	37,998	112,651	2,026
2015	234,748	987	103,629	137,802	-5,696
Total through 2015	**1,126,168**	**9,079**	**253,045**	**879,512**	**2,690**
Total 2016	-	41	216,560	245,947	-
Total	**1,126,168**	**9,120**	**469,605**	**1,125,459**	**2,690**

Claim history 2015 (gross)

In € thousands	Reserve as of 1 January	Addition of interest	Payments	Reserve as of 31 December	Claims run-off result
Claim years:					
2006 and earlier	308,044	4,606	38,615	311,829	-37,794
2007	36,144	291	8,357	28,543	-465
2008	34,398	219	6,293	24,046	4,278
2009	46,151	291	8,417	34,295	3,730
2010	67,053	463	17,163	46,997	3,356
2011	103,433	609	17,268	81,005	5,769
2012	118,644	708	21,442	93,412	4,498
2013	161,481	1,098	37,510	119,394	5,675
2014	286,892	1,053	120,144	151,899	15,902
Total through 2014	**1,162,240**	**9,338**	**275,209**	**891,420**	**4,949**
Total 2015	-	46	226,275	234,748	-
Total	**1,162,240**	**9,384**	**501,484**	**1,126,168**	**4,949**

Claim history (net)

The run-off of the net claims reserve for previous claim years is shown in the table below.

Claims history 2016 (net)

In € thousands	Reserve as of 1 January	Addition of interest	Payments	Reserve as of 31 December	Claims run-off result
Claim years:					
2007 and earlier	267,225	3,391	28,673	244,432	-2,489
2008	23,070	174	4,389	18,464	391
2009	31,615	232	7,094	22,855	1,898
2010	43,973	389	6,797	35,605	1,959
2011	76,440	495	13,268	60,715	2,952
2012	84,796	547	15,308	68,784	1,251
2013	114,679	731	23,507	86,873	5,030
2014	144,911	701	36,890	107,478	1,243
2015	228,029	925	102,938	133,002	-6,986
Total through 2015	**1,014,738**	**7,585**	**238,864**	**778,208**	**5,250**
Total 2016	-	41	204,631	231,406	-
Total	**1,014,738**	**7,626**	**443,495**	**1,009,614**	**5,250**

Claims history 2015 (net)

In € thousands	Reserve as of 1 January	Addition of interest	Payments	Reserve as of 31 December	Claims run-off result
Claim years:					
2006 and earlier	262,225	3,374	29,249	239,608	-3,258
2007	34,972	291	8,189	27,617	-543
2008	33,363	210	5,932	23,070	4,571
2009	42,941	282	7,779	31,615	3,829
2010	60,031	424	12,916	43,973	3,566
2011	98,055	563	16,917	76,440	5,261
2012	110,715	636	20,671	84,796	5,884
2013	154,440	991	36,282	114,679	4,470
2014	241,818	968	116,043	144,911	-18,168
Total through 2014	**1,038,560**	**7,739**	**253,978**	**786,709**	**5,612**
Total 2015	-	46	213,751	228,029	-
Total	**1,038,560**	**7,785**	**467,729**	**1,014,738**	**5,612**

The tables above show the claims patterns for 2016 and 2015. The run-off result in 2016 of loss years 2007 and earlier is mainly due to the downward moving interest rates that is accounted for in the technical provisions.

LAT test result

Reconciliation of the IFRS provision and the LAT test results

In € thousands	2016	2015
Insurance liabilities before LAT	1,120,048	1,134,972
Provision calculated for LAT	996,637	1,117,988

There is no deficit in 2016 and 2015.

The amount of the provision calculated for LAT at the end of 2016 includes the effects of changes in assumptions, which took place in 2016. These adjusted assumptions resulted in the decrease in the provision amounting to € 55.4 million, primarily due to the refinements in the modelling method used for disability insurance portfolio (€ 26.4 million) and the adjusted method of cost allocation (€ 29 million).

11. Provision for employee benefits

Breakdown of provision for employee benefits

In € thousands	2016	2015
Pension commitments	26,036	24,083
Total	**26,036**	24,083

Pension commitments

Defined contribution scheme

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

Defined benefit schemes

Reaal Schade is also responsible for several legacy pension schemes with pension entitlements of current and former employees of Reaal 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.

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.

Reaal Schade's total contribution to these defined benefit schemes is expected to be approximately € 0.4 million in 2017 (2016: € 0.7 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, 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.

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 former participants are unconditionally indexed based on the salary index. 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, € 8.8 million was added to the provision for pensions for these pension schemes (2015: € 8.6 million). In 2017, Reaal Schade's contribution to these defined benefit schemes is expected to amount to € 0.1 million (2016: € 0.3 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 self-administered. For this pension scheme, the present value of the pension obligations of € 13.1 million (2015: € 12.0 million) has been included in the provision for employee benefits. There is no separate investment account. Reaal Schade's contribution to the defined benefit scheme of Zwitserleven is expected to amount to € 0.2 million in 2017 (2016: € 0.3 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. In all of these pension schemes no more pension rights, other than indexation, are accrued.

After offsetting the fair value of the investments, € 4.0 million (2015: € 3.5 million) has been added to the provision for pensions for these pension schemes. In 2017, Reaal Schade's contribution to the other defined benefit schemes is expected to amount to € 0.1 million (2016: € 0.1 million).

Overview pension commitments
Breakdown of pension commitments

In € thousands	2016	2015
Present value of defined benefit obligations	29,031	26,859
Fair value of plan assets	2,995	2,776
Present value of the net liabilities	**26,036**	**24,083**

Change in present value of defined benefit obligations

In € thousands	2016	2015
Present value as at 1 January	26,859	-
Transfer from SRH NV	1,382	28,377
Increase and interest accrual through profit or loss	294	598
Actuarial gains or losses through Other Comprehensive Income	1,275	-1,380
Benefits paid	-779	-736
Present value as at 31 December	**29,031**	**26,859**

In May 2016, the indexation obligation of (former) employees of insurers acquired by SNS REAAL NV was transferred to VIVAT. Additional information has been included in note 15 Related Parties.

Change in fair value of the plan assets

In € thousands	2016	2015
Fair value as at 1 January	2,776	-
Transfer from SNS REAAL NV	115	2,868
		-
Investment income through profit and loss	62	46
Investment income through Other Comprehensive Income	177	-46
Investment income	**239**	**-**
Premiums	644	644
Benefits paid	-779	-736
Fair value as at 31 December	**2,995**	**2,776**

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 investments

In € thousands	2016	2015
Shares	504	463
Fixed income investments	1,945	1,850
Other	546	463
Balance as at 31 December	**2,995**	**2,776**

Statement of Other Comprehensive Income

In € thousands	2016	2015
Balance as at 1 January	184	-
Transfer from SNS REAAL NV	-	138
Actuarial gains or losses at the expense of Other Comprehensive Income	-1,275	1,380
Investment income for the benefit or at the expense of Other Comprehensive Income	177	-46
Additional transfer from technical provision	2,991	-1,242
Other	-506	-46
Balance as at 31 December	**1,570**	**184**

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	2016	2015
Experience adjustments as a % of defined benefit obligation	-4%	0%
Experience adjustments as a % of investments	-3%	4%

The main actuarial parameters at year-end

In percentages	2016	2015
Discount rate	1.7%	2.3%
Expected salary increase	1.8%	1,5% - 2,0%
Price inflation	1.8%	1.8%

Sensitivity present value of pension obligations 2016

	31 December 2016	
	Change in € millions	Change in %
Discount rate 0.7% (-1.0%)	6	22%
Discount rate 2.7% (+1.0%)	-5	-17%

Sensitivity present value of pension obligations 2015

	31 December 2015	
	Change in € millions	Change in %
Discount rate 1.3% (-1%)	6	19%
Discount rate 3.3% (+1%)	-4	-15%

12. Amounts due to banks

Breakdown of amounts due to banks

In € thousands	2015	2014
Due on demand	22,309	2,351
Totaal	**22,309**	**2,351**

The amount of € 22.3 million (2015: € 2.4 million) due on demand relates to cash collateral. Deposits and certificates are comprised of liabilities under repo agreements.

13. Other liabilities

Breakdown of other liabilities

In € thousands	2016	2015
Debts in relation to direct insurance	719	13,165
Debts to reinsurers	28,235	30,511
Debts to group companies	4,963	5,097
Other liabilities	62,887	60,020
Accrued liabilities	92	51
Total	**96,896**	**108,844**

14. Guarantees and commitments

Guarantees received

The market value of guarantees received under the National Mortgage Guarantee Fund (in Dutch: NHG) amounted to € 0 million at year-end 2016 (2015: € 1 million).

Netherlands Reinsurance company for Losses from Terrorism

In 2017, Reaal Schade will take a 4.72% share in the Non-Life cluster of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2017, the guarantee will be € 9.4 million and premiums will amount to € 0.3 million.

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. Reaal Schade's related parties are its parent VIVAT NV and affiliates and Reaal 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 between Reaal Schade, VIVAT and affiliates

The intra-group balances and transactions between VIVAT and affiliates in 2016 were:

- On 29 December 2015, VIVAT granted a loan to Reaal 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 granted a loan to Reaal 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.

Intra-group balances with key management personnel of Reaal Schade

The transfer of shares of VIVAT to Anbang and changes in the composition of management boards during 2015 led to changes in the composition of key management personnel in 2015. As a result, the key management personnel from the end of 2015 and the year 2016 consists exclusively of the members of the Executive Board.

On 23 October 2015, responsibility under the Articles of Association for SRLEV, Proteq and Reaal Schade was also transferred to the members of the Executive Board.

Ron van Oijen, the new CEO, took office on 14 March 2016, after which Albert Bakker relinquished his role as Acting CEO and also as a member of the Executive Board. On 24 May 2016, Wendy de Ruiter-Lörx and Jeroen Potjes were appointed as members of the Executive Board of VIVAT.

The Executive Board comprised 7 employees as at 31 December 2016 (31 December 2015: 5).

Actual remuneration (former) members of the Executive Board

The following table provides an breakdown of the total remuneration of the Executive Board for the year 2016, including former and existing key management. The members of the Executive Board of VIVAT are the same as the management board members of SRLEV, Reaal Schade and Proteq.

Breakdown of remuneration (former) key management personnel

In € thousands	2016	2015
Short-term employee benefits	4,419	4,612
Post-employment benefits	125	209
Other long-term benefits	-	104
Termination benefits	695	3,389
Share-based payment	-	131
Total	**5,239**	**8,445**

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

Loans

There are no loans outstanding on 31 December 2016 (and 2015) and/or granted to members of the Excecutive Board during 2016.

Actual remuneration (former) members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members in 2016 (excluding 21% VAT). The members of the Supervisory Board of VIVAT are the same as the management board members of SRLEV, Reaal Schade and Proteq.

Breakdown of remuneration (former) members of the Supervisory Board

In € thousands[1]	2016	2015[2]
Total fixed actual remuneration of Supervisory Board members	543	240
Total remuneration for delegated Supervisory Board members	188	112
Total remuneration for the members of the Supervisory Board's Committees	25	11
Total	**756**	**363**

1 On 26 July 2015 (date of transfer of shares) Reaal Schadeverzekeringen NV has established its own Supervisory Board. Before this date the Supervisory Board of SNS REAAL NV formed the Supervisory Board of SNS REAAL NV, SNS Bank NV, VIVAT NV and Reaal Schadeverzekeringen. The remuneration for the year 2015 disclosed above concerns the remuneration of the Supervisory Board of Reaal Schadeverzekeringen NV from 26 July 2015 until 31 December 2015.

2 Figures are on an accrued basis and the comparative figures have been adjusted.

Loans

There are no loans outstanding on 31 December 2016 (and 2015) and/or granted to members of the Supervisory Board during 2016.

Transactions with former intra-group companies

The shares of VIVAT were transferred to Anbang on 26 July 2015. Any transactions and balances existing between VIVAT, SRH NV and affiliates until the transfer of the shares have been disclosed in previous annual reports.

Tax group

The tax group for income tax and VAT purposes between SRH NV, de Volksbank NV and VIVAT was terminated on 30 June 2015. Immediately afterwards, VIVAT and its subsidiaries formed a new tax group and are jointly and individually liable for the fiscal unity's corporate income tax and VAT debts.

16. Events after the balance sheet date

There are no events after balance sheet 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 premium income

	Gross		Reinsurance		Total	
In € thousands	2016	2015	2016	2015	2016	2015
Fire	197,904	192,958	-14,402	-14,525	**183,502**	**178,433**
Accident and health	115,496	116,632	-5,642	-5,653	**109,854**	**110,979**
Motor vehicle	202,841	220,939	-1,918	-1,967	**200,923**	**218,972**
Transport	35,931	43,169	-1,921	-1,660	**34,010**	**41,509**
Other segments	113,926	112,514	-21,115	-21,974	**92,811**	**90,540**
Total	**666,098**	**686,212**	**-44,998**	**-45,779**	**621,100**	**640,433**

18. Net fee and commission income

Breakdown of net fee and commission income

In € thousands	2016	2015
Fee and commission income:		
- Money transfer and payment charges	-	14
- Insurance agency activities	28	43
Total fee and commission income:	**28**	**57**
Fee and commission expense	15	7
Totaal	**13**	**50**

19. Investment income

Breakdown of investment income

In € thousands	2016	2015
Available for sale	18,725	22,261
Loans and receivables	283	556
Total	**19,008**	**22,817**

Breakdown of investment income 2016

In € thousands	Available for sale	Loans and receivables	Total
Interest and dividend	18,286	219	**18,505**
Realised revaluations	439	64	**503**
Total	**18,725**	**283**	**19,008**

Breakdown of investment income 2015

In € thousands	Available for sale	Loans and receivables	Total
Interest and dividend	21,473	567	**22,040**
Realised revaluations	788	-11	**777**
Total	**22,261**	**556**	**22,817**

Investment income includes a net gain on currency differences of € 21 thousand in 2016 (2015: € 322 thousand gain).

20. Result on derivatives

Breakdown of result on derivatives

In € thousands	2016	2015
Market value movements of derivatives maintained for ALM not classified for hedge accounting	17,864	685
Total	**17,864**	**685**

The result on derivatives in 2016 are a result of movements in interest.

21. Technical claims and benefits

Technical claims and benefits include benefits paid, surrenders, claims paid, claim handling costs and changes in insurance liabilities. This item also includes profit-sharing and discounts.

Breakdown of technical claims and benefits

	Gross		Reinsurance		Total	
In € thousands	2016	2015	2016	2015	2016	2015
Claims paid	469,605	501,486	-26,110	-33,758	443,495	467,728
Change in provision for reported claims	19,302	17,610	-6,637	9,624	12,665	27,234
Change in provision for claims incurred but not reported	-20,012	-53,683	2,225	2,627	-17,787	-51,056
Total	**468,895**	**465,413**	**-30,522**	**-21,507**	**438,373**	**443,906**

22. Acquisition costs for insurance activities

In € thousands	2016	2015
Acquisition costs	136,164	150,979
Reinsurance	-7,284	-7,360
Totaal	**128,880**	**143,619**

23. Staff costs

Breakdown of staff costs

In € thousands	2016	2015
Salaries	15,636	5,409
Pension costs	3,315	957
Social security contributions	2,662	803
Other staff costs	88,166	113,014
Total	**109,779**	**120,183**

The change in staff costs is also caused by the new allocation of expenses within VIVAT following the strategic review in 2016.

Breakdown of pension costs

In € thousands	2016	2015
Pension contributions based on defined contribution	3,863	1,127
Employee contributions	-548	-170
Total	**3,315**	**957**

Other staff costs

Other staff costs consist mainly of staff costs recharged by VIVAT. The increase of other staff costs relates to the increase of restructuring charges from VIVAT.

Number of FTE's

In numbers	2016	2015
Number of FTEs	827	1,100

24. Other operating expenses

Breakdown of other operating expenses

In € thousands	2016	2015
IT systems	3,953	6,906
Marketing and public relations	806	3,687
External advisors	340	54
Other costs	26,249	13,244
Total	**31,348**	**23,891**

The movements of all costs categories is caused by the new allocation of expenses within VIVAT following the strategic review in 2016.

25. Impairment losses (reversals)

Breakdown of impairment losses / reversals by class of asset

	Impairments		Reversals		Total	
In € thousands	2016	2015	2016	2015	2016	2015
> Through profit or loss						
Intangible assets	12,307	32,000	-	-	**12,307**	**32,000**
Investments	2	-	-	-	**2**	**-**
Other debts	-	-87	1	-	**-1**	**-87**
Total through profit or loss	**12,309**	**31,913**	**1**	**-**	**12,308**	**31,913**

26. Other interest expenses

Breakdown of other interest expenses

In € thousands	2016	2015
Private loans	6,241	51
Interest deposits	672	803
Other interest and investment expenses	232	261
Total	**7,145**	**1,115**

The increase of interest expenses is caused by the increase of subordinated private loans.

27. Taxation

Breakdown of taxation

In € thousands	2016	2015
In financial year	-18,204	-24,343
Corporate income tax due	**-18,204**	**-24,343**
Due to temporary differences	-735	-2,185
Deferred tax	**-735**	**-2,185**
Total	**-18,939**	**-26,528**

Reconciliation between the statutory and effective tax rate

In € thousands	2016	2015
Statutory income tax rate	25.0%	25.0%
Result before tax	-75,593	-105,446
Statutory corporate income tax amount	**-18,898**	**-26,362**
Effect of participation exemption	-41	-166
Total	**-18,939**	**-26,528**
Effective tax rate	25.1%	24.9%

28. Financial instruments

Fair value of financial assets and liabilities

The table below shows the fair value of Reaal 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 2016	Carrying amount 2016	Fair value 2015	Carrying amount 2015
Financial assets				
Investments				
- Available for sale	1,633,680	1,633,680	1,458,606	1,458,606
- Loans and receivables	1,912	1,857	2,145	2,093
- Mortgages	-	-	2,381	2,381
Derivatives	30,292	30,292	9,254	9,254
Other assets	48,672	48,672	39,347	39,347
Cash and cash equivalents	53,043	53,043	60,517	60,517
Total financial assets	**1,767,599**	**1,767,544**	**1,572,250**	**1,572,198**
Financial liabilities				
Subordinated debts	150,000	150,000	80,000	80,000
Derivatives	10,321	10,321	7,133	7,133
Amounts due to banks	22,309	22,309	2,351	2,351
Other liabilities	96,896	96,896	108,844	108,844
Total financial liabilities	**279,526**	**279,526**	**198,328**	**198,328**

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 fair value 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.

Mortgages
The market value of mortgages is determined using a discounted value method. The yield curve used to discount cash flows of mortgage loans is the swap rate plus a risk premium that can vary between subportfolios. Expected future early redemptions, losses and the corresponding consumer rates are taken into account in determining the expected cash flows.

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 Reaal 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 Reaal 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 behalf 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.

Hierarchy financial instruments 2016

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	1,633,680	1,565,754	16,838	51,088	**1,633,680**
Derivatives	30,292	-	30,292	-	**30,292**
> Financial assets not measured at fair value					
Mortgages	-	-	-	-	**-**
Investments loans and advances	1,857	-	1,912	-	**1,912**
Other assets	48,672	48,672	-	-	**48,672**
Cash and cash equivalents	53,043	53,043	-	-	**53,043**
> Financial liabilities measured at fair value					
Derivatives	10,321	-	10,321	-	**10,321**
> Financial liabilities not measured at fair value					
Subordinated debts	150,000	150,000	-	-	**150,000**
Amounts due to shareholder	22,309	-	22,309	-	**22,309**
Other liabilities	96,896	96,896	-	-	**96,896**

Hierarchy financial instruments 2015

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	1,458,606	1,541,262	26,131	42,751	**1,610,144**
Derivatives	9,254	–	9,254	–	**9,254**
> Financial assets not measured at fair value					
Mortgages	2,381	–	–	2,381	**2,381**
Investments loans and advances	2,093	–	2,093	–	**2,093**
Other assets	39,347	39,347	–	–	**39,347**
Cash and cash equivalents	60,517	60,517	–	–	**60,517**
> Financial liabilities measured at fair value					
Derivatives	7,133	–	7,133	–	**7,133**
> Financial liabilities not measured at fair value					
Subordinated debts	80,000	80,000	–	–	**80,000**
Amounts due to banks	2,351	–	2,351	–	**2,351**
Other liabilities	108,844	108,844	–	–	**108,844**

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 2016

In € thousands	Available for sale
Balance as at 1 January	42,751
Transfer to level 3	2,894
Realised gains or losses recognised in profit or loss	-2
Unrealised gains or losses recognised in other comprehensive income	2,071
Purchase/acquisition	8,117
Sale/settlements	-4,608
Other	-135
Balance as at 31 December	**51,088**
Total gains and losses included in profit or loss	-2

Change in level 3 financial instruments in 2015

In € thousands	Available for sale
Balance as at 1 January	32,512
Transfer to level 3	2,916
Realised gains or losses recognised in profit or loss	-
Unrealised gains or losses recognised in other comprehensive income	3,135
Purchase/acquisition	5,568
Sale/settlements	-1,506
Other	126
Balance as at 31 December	**42,751**
Total gains and losses included in profit or loss	-

Breakdown of level 3 financial instruments

In € thousands	2016	2015
Bonds issued by financial institutions	5,542	610
Collateralised debt obligation	9,370	9,276
Equities	36,176	35,246
Total	**51,088**	**45,132**

The fair value of financial instruments classified in level 3 is based in part on inputs that are not observable in the market. The main non-observable data are the expected defaults in the underlying portfolios and the implied discount rate. A stress scenario involving a higher expected loss on the principal, for instance, would result in a significant decrease in the fair value of the instrument.

Impairments of financial instruments by category

	Level 1		Level 2		Level 3		Total	
In € thousands	2016	2015	2016	2015	2016	2015	2016	2015
Equities	-	-	-	-	2	-	**2**	**-**
Total	**-**	**-**	**-**	**-**	**2**	**-**	**2**	**-**

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

Reclassification between categories 2016

In € thousands	to Level 1	to Level 2	to Level 3	Total
From:				
Based on published stock prices in an active market (Level 1)	-	-	-	**-**
Based on observable market data (Level 2)	-	-	2,894	**2,894**
Not based on observable market data (Level 3)	-	-	-	**-**

Reclassification between levels 1, 2 and 3

Shift between levels 2 and 3

At year-end 2016, € 2,916 thoudand 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 2016

				Related amounts not netted in the carrying amount			
In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	30,292	–	30,292				
Financial liabilities							
Derivatives	10,321	–	10,321				
Total financial assets and liabilities	19,971	–	19,971	–	21,480	–	-1,509
Derivatives	19,971	–	19,971	–	21,480	–	-1,509

At year-end 2016, Reaal Schade received collateral from third parties by virtue of derivative exposures. An amount of € 15,500 thousand (2015: € 2,000 thousand) of this collateral has been reinvested in a money-market fund.

Financial assets and liabilities 2015

				Related amounts not netted in the carrying amount			
In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	9,254	–	9,254				
Financial liabilities							
Derivatives	7,133	–	7,133				
Total financial assets and liabilities	2,121	–	2,121	–	2,350	–	-229
Derivatives	2,121	–	2,121	–	2,350	–	-229

Management of past due and impaired assets

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

Financial instruments - impairments 2016

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	1,403,681	-	-1	-	**1,403,680**
Loans and receivables	1,857	-	-	-	**1,857**
Other financial assets	53,312	1,088	-	-2,894	**51,506**
Total	**1,458,850**	**1,088**	**-1**	**-2,894**	**1,457,043**

Financial instruments - impairments 2015

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	1,458,758	-	-	-	**1,458,758**
Loans and receivables	4,474	-	-	-	**4,474**
Other financial assets	42,688	-921	-	-2,422	**39,345**
Total	**1,505,920**	**-921**	**-**	**-2,422**	**1,502,577**

Reaal 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.

Reaal 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 the Financial Committee. Financial instruments meeting one or more of these criteria are analysed and assessed individually to determine whether there is a loss event.

29. Hedging

Reaal 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 Reaal Schade is active in the relevant markets.

Derivatives for hedging purposes 2016

	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**	30,292	-10,321
Total	**-**	**400,000**	**298,000**	**698,000**	**30,292**	**-10,321**

Derivatives for hedging purposes 2015

In € thousands	Nominal amounts < 1 year	1 - 5 years	> 5 years	Total	Fair value Positive	Negative
Interest rate contracts						
- Swaps and FRAs	-	400,000	298,000	**698,000**	9,254	-7,133
Total	**-**	**400,000**	**298,000**	**698,000**	**9,254**	**-7,133**

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

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

30. List of principal subsidiaries

Overview of principal subsidiaries

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

7. Managing risks

7.1. Risk Management System

7.1.1. General

Reaal 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 Reaal Schade recognises that transparency is a vital element in effective risk management. The Executive Board and the Reaal Schade 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 areas of strategy, culture and risk governance in order to enable risk assessments to be performed properly and efficiently. These guidelines apply to the entire organisation. Reaal 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 Internal Control Framework (ICF) provides the basis for the internal control system on risk maturity of process key controls and management controls within Reaal Schade. The management of Product or Functional Lines 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 are including the minimum requirements. All components are periodically scored and made visible in the ICF-scorecard. The outcomes are discussed in the Operational Risk Committees (ORC's) and the VRC and are the basis for improvement plans.

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 Reaal Schade operates an integrated approach for risks that the organisation is exposed to.

The core of the Risk Management System consists of a strategic part Governance at which, starting from the Reaal Schade 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 all second line Solvency II Key Functions use the same risk classification, all 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 the core a control cycle of risk identification-measurement- mitigation and continuous monitoring and reporting, supported by the ICF. The ICF plays a key role in eventually creating a solid foundation for an increase in maturity level of control and the ongoing professionalization of demonstrable, effective risk management throughout the organization.

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.

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

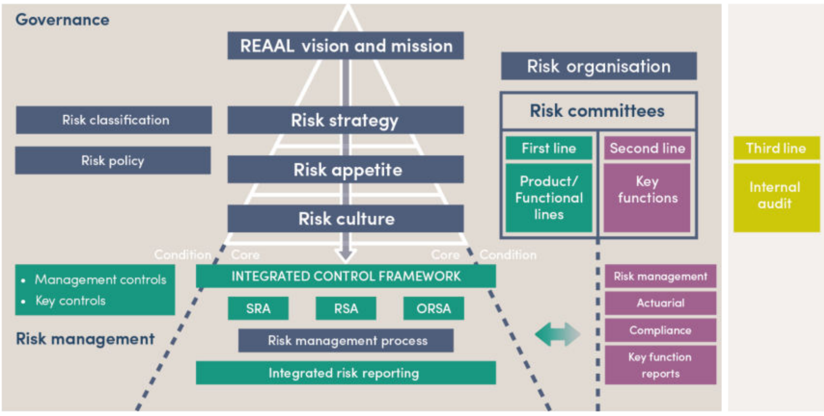


Figure 9: Risk management

7.2. Risk Management Governance

7.2.1. Mission and vision

The Vision of Reaal Schade to be a leading, trusted and customer-centric financial service provider results in a two pillar mission, focusing on comprehensive products and services leveraging the most advanced technologies. From this starting point, the Risk Strategy contributes to a sustainable growth of Reaal Schade, for the benefit of all its stakeholders.

Reaal Schade aims for a robust and strong capital position, which contributes to both the confidence that customers have in the institution and the access to financial markets. Reaal Schade offers competitively priced products by utilising economies of scale in its organisation. Reaal Schade takes its role in society seriously. Corporate responsibilitiy (CR) follows from the mission and vision, and forms an integral part of the strategy and business operations. Reaal Schade wishes to offer competitively priced products in efficient business processes, using a central back office in addition. Reaal Schade pursues a customer-centric strategy, with Reaal positioned clearly. The focus on this flagship brand allows for a more agile and lean operation bringing costs to a lower required level.

7.2.2. Risk Strategy

Reaal Schade has derived a Risk Strategy, a supporting set of objectives following from the Reaal Schade vision and mission to achieve the strategic goals. The Risk Strategy is expressed in the Risk Appetite.

As main principles Reaal Schade has defined a robust capital position, stable profitability a prudent and consistent risk policy, regulatory compliance, social responsibility and effective and efficient customer solutions.

Reaal Schade provides guarantees for future payments to its customer and therefore Reaal Schade needs a strong capital position. The well capitalised shareholder has the intention to invest in the growth of the business. The Executive Board would like to hold a buffer above regulatory capital requirement to absorb temporary volatility and to provide more certainty to its customers.

7.2.3. Risk Appetite

The Risk Appetite is set yearly by the Executive Board and confirmed by the Risk Committee of the Supervisory Board. This is limited by the risk capacity, which indicates the maximum amount of risk Reaal 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.

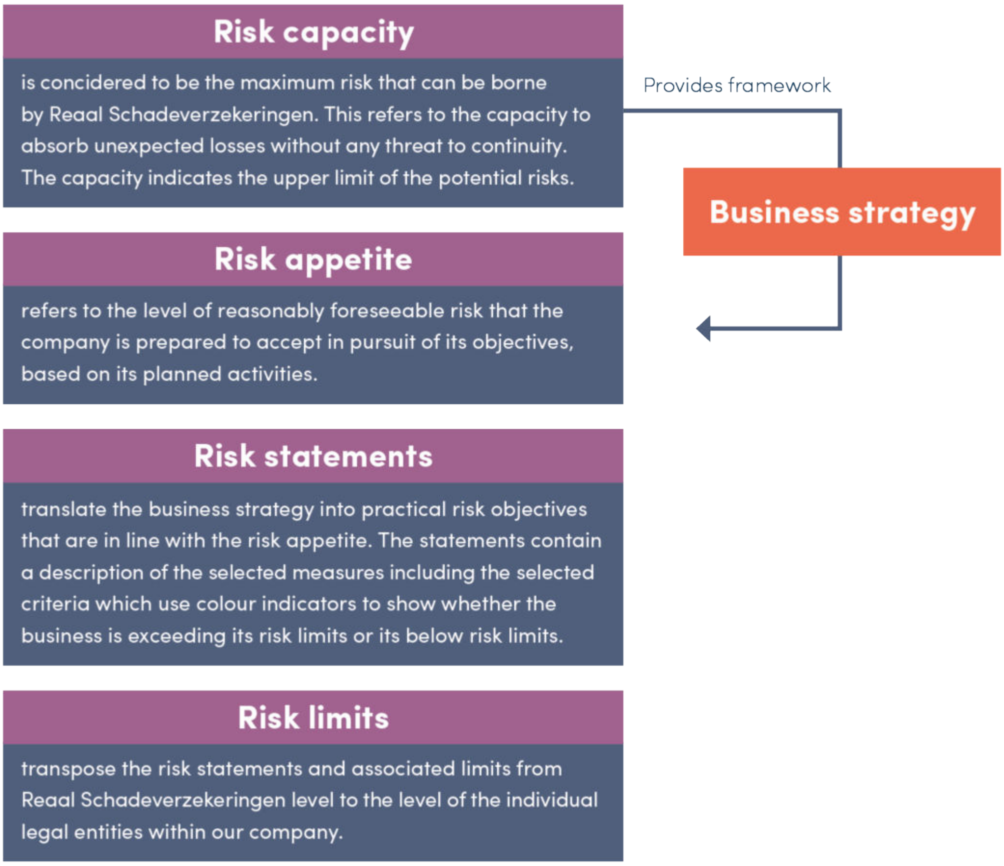


Figure 10: Risk appetite framework

Risk Appetite is defined at VIVAT level, including Reaal Schade. Subsequently it is developed in more detail on the individual legal entity level 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 Product Lines or legal entities are able to select the best possible products and services, although their selection must be in line with the strategy of VIVAT.

The Risk Appetite control procedure, 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 controlling a company, and specifically in adequate, risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. Reaal Schade has awareness programs in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. Reaal Schade has five core behaviors: Focus on Client, Result Driven, Immediate Execution, Take Responsibility and Change Attitude.

Reaal Schade realizes that the tone at the top is defining for Risk Culture, which makes communication and exemplary behaviour determinant. Reaal 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 Reaal Schade. The management teams of the Product Lines and Functional Lines promote awareness of risks and are supported by the second line. The management teams are responsible for ensuring that risk decisions are made in accordance with the delegated authorities, in consultation with all second line Solvency II key functions.

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

7.2.5. Risk Organisation

Reaal Schade has established 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 optimization and integration of the risk management.

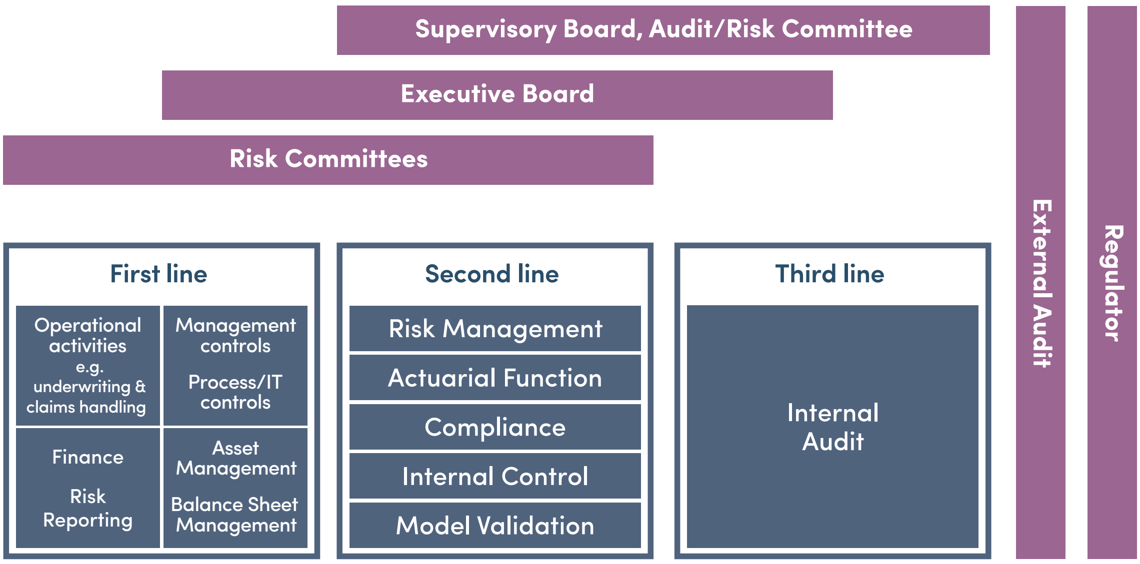


Figure 11: Three lines of defence

First line = risk taker

Business plans are prepared in the first line. With this preparation, the first line operationalizes 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 between risk and 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 Reaal 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, the control framework and supports central decision-making bodies. The data used, including models, assumptions and techniques, are validated periodically. Furthermore the second line provides specialist advise to the first line.

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

Third line = internal audit

Audit VIVAT is the independently operating (third line) audit function and has a supervising role assessing the functioning of the risk management system (including the interaction between first and second line).

Audit VIVAT does not take part in determining, implementing or steering of the risk policy. Audit VIVAT reports to the chairman of the Executive Board of Reaal Schade and has a reporting line to the Chairman of the Audit Committee of the Supervisory Board of VIVAT.

Audit performs independent and objective audits and reviews to assess whether there is an adequate and efficient Risk Management System within the business processes which supports the realisation of the organisation’s strategic objectives; whether there is sufficient, reliable management information, which is used for testing the realisation of the objectives and whether (business, financial, reporting or other) processes are efficient and effective. Furthermore, Audit VIVAT assesses whether Reaal Schade complies with laws and regulations and if assets (e.g. physical, intellectual, policy & company data) are safeguarded adequately.

In the quarterly report, Audit VIVAT informs the Executive Board and the Audit Committee of VIVAT. This quarterly report contains at least an executive summary containing findings and issues relating to deficiencies regarding the governance, internal control and risk management system; findings and observations that are substantial for the risk profile; the executive summary of all audits reported in the quarter and a follow-up monitoring of recommendations of Audit, regulators and external auditor.

Risk management 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) and Product Committee (PC). The latter is leading for the underlying PMP MT's (Product, Marketing, Pricing) in the Product Lines. In the ORC MT's, the issues regarding Operational Risk and Compliance are discussed.

Key Functions

In accordance with Solvency II, VIVAT recognizes 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 Functions are established on Group level and carry out activities on behalf of all insurance activities of VIVAT. The CRO is the Risk Management Function Holder, the Director Financial Risk is the Actuarial Function Holder and the Director Non-financial Risk is the Compliance Function Holder. The Director Audit VIVAT is the third line Audit Function Holder.

The Risk Function Report (RFR) is an integrated report on all financial and non-financial risks with potential (material) financial impact. The RFR includes a summary of the major risks. Looking back, the RFR describes developments in risk areas compared to the previous reporting period. Looking forward, the RFR shows the uncertainty or expectations that (may) impact the future financial position of Reaal Schade. Furthermore, the RFR contains an opinion drafted by the second line (FR and NFR) drafted and endorsed by the CRO on the development of the various risks, the dependency, and the impact on OP, solvency and strategy. The RFR opinion is discussed in the risk committees and in VRC and Supervisory Board.

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

The Compliance Function provides at least twice a year a report on the most important Compliance Risk of Reaal Schade to the VRC and the Risk Committee of the Supervisory Board.

7.2.6. Risk Policy

Reaal 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

Reaal Schade provides insight into the risks for the business itself and for its stakeholders in order 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 Reaal Schade is exposed or could be exposed to.

Reaal 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 Reaal Schade's risk profile. The risk classification, which is determined at VIVAT level, is structured in main risk types and corresponding sub risk types.

Strategic developments (governance, positioning, external developments) relate to future business developments and may eventually emerge as one of the main or sub risk types. Several internal and external scenarios are taken in to account, which arise from a Strategic Risk Assessment (SRA).

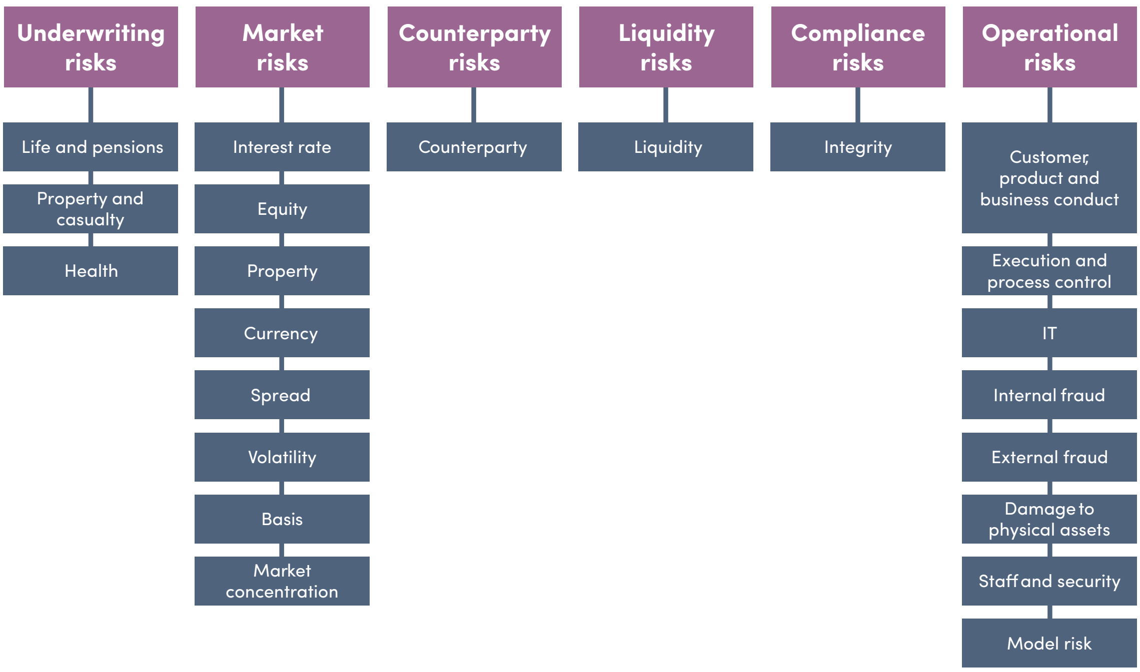


Figure 12: Risk classification

The way in which the risk categories are managed is discussed below.

7.3. Risk Management Process

7.3.1. Integrated Control Framework

The ICF is used for the improved management of all identified risk categories within Reaal Schade. As part of this, Reaal Schade has specifically opted for an integrated risk approach based on its risk classification.

Management uses the ICF to direct and manage the control and integrity of its business processes, following strategic objectives and Reaal Schade's risk appetite. Management furthermore aims at the ICF helping to promote risk awareness among all employees.

The ICF contains core components that together form the basis for controlled business operations within Reaal Schade, and supports being in control. It measures the maturity of risk management and ensures steering on correct and complete risk reports. The ICF monitors Process Controls and Management Controls. Important components, and conditions for performing adequate risk management, are Process management, Data, Infrastructure, Models and (behaviour of) People.

The ICF provides a framework which incorporates Management Controls and Process Controls in such a way that it is possible to state with a reasonable level of assurance, that the internal control system is operating effectively. Reaal Schade has set itself a maturity ambition and will continue to work on fine tuning of control objectives and a further involvement of the second line risk departments in the self-assessments of the first line departments in 2017.

7.3.2. Process Controls and Management Controls

During 2016, the implementation of ICF was finalized. 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, S2) and internal policies.

Process controls have to be executed and documented within the processes in the first line (product and functional lines). These key controls are also independently tested on effectiveness within the first line and reviewed or reperformed by the second or third line of defense.

In 2017, new tooling will further support and optimize monitoring and reporting on process and management controls. Necessary improvements will be implemented in 2017. The completeness and design of both process and management controls is re-evaluated continuously in order to optimize the quality within ICF.

7.4. Capital management

7.4.1. Definition

Capitalisation refers to the extent to which VIVAT and its underlying legal entities, including Reaal Schade, have a capital, which is necessary to cover unforeseen losses or to achieve the strategic objectives of the company. The required capital of Reaal 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).

7.4.2. Capital policy

Reaal Schade has a Capital Policy. The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet legal 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 Reaal Schade's strategy.

In addition to the Capital Policy, a Recovery Plan exists which describes the procedure that applies in a contingency situation. In this context, a contingency situation is defined as a situation in which a capital deficit arises, or threatens to arise, which poses a direct threat to the going concern of Reaal Schade in its current form. In its Risk Appetite Statements, Reaal 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. Reaal Schade's Capital Policy forms the basis for translating policy into lower level policy, process descriptions, procedures and the like.

Management uses the Capital and Funding Plan, ALM study, Risk Dashboards, ORSA, Recovery Plan and Financial Risk Reporting for the purpose of managing the capital position. The Capital and Funding Plan describes the medium-term plans in the area of capital and funding. This includes a forecast of solvency for the next five years. The Capital and Funding Plan is based on the Operational Plan as supplied by the underlying Product Lines and supplementary information if appropriate.

7.4.3. Regulatory framework

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.

Capitalisation is covered in all three pillars under the Solvency II framework:

The first pillar contains the prudential rules regarding minimum solvency. This pillar introduces two risk-weighted measures: the Minimum Capital Ratio (MCR), and the Solvency Capital Ratio (SCR).

The second pillar includes a process under which the insurer has to evaluate its capitalisation periodically: the ORSA. A fixed part of the ORSA involves determining whether the standard model is appropriate for the needs of the insurer in question. If the standard model is not appropriate, the insurer has to develop its own models and methodologies in order to determine for itself whether its level of capitalisation is adequate. Based on the ORSA, a dialogue will take place between the insurer and DNB (in its capacity as regulator) in the context of the Supervisory Review Process (SRP). In the SRP, DNB assesses the ORSA outcomes of an insurer.

The way in which insurers have to report their exposure and capital adequacy to the market (disclosure) is laid down in the third pillar. Reaal 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 the supervised insurance entities and also to the consolidated activities of VIVAT.

7.4.4. ORSA

With the implementation of Solvency II on 1 January 2016, it has become mandatory for insurance companies to draft and submit to DNB an own-risk and solvency assessment (ORSA) at least on an annual basis. In 2016, Reaal Schade performed an ORSA. which was the basis for the Operational Plan and Capital Management.

The management of VIVAT uses the ORSA to verify the amount of capital required and this may result in management actions to bring the capital in line with the risk profile and risk appetite. The extent to which Reaal Schade's capitalization, given the identified risks, is sufficiently robust to be able to absorb remaining risks in existing and future circumstances is determined on the basis of scenario analyses and stress tests. The ORSA covers VIVAT NV and all underlying regulated insurance entities, including Reaal Schade. The internal evaluation of the ORSA is performed at least once a year. The ORSA contains "appropriateness testings" to assess whether the SCR standard formula is appropriate for Reaal Schade given its risk profile. This integral risk assessment is not limited to the risk categories that are explicitly included in the SCR standard formula, and includes a broader range of risks (e.g. Model risk).

The combination of the business strategy, risk appetite, solvency position and constant evaluation produces input for management's discussion on the amount of capital required. The outcome of this discussion is the ORSA capital, i.e. the minimum amount of capital required, given the current business, in order that any risks over a particular horizon can be absorbed. In the 2016 ORSA exercise, it was concluded that deviations exist on single risk level where some risks in the SCR standard model are understated or overstated, or even not at all taken into account. However in aggregate, Reaal Schade concluded that the standard formula SCR calculation is prudent, but appropriate for the risk profile of Reaal Schade.

7.4.5. Capital position

The supervisory authorities EIOPA and DNB have produced several public guidance notes on the interpretation of Solvency II and Reaal Schade produces all regulatory reports that are mandatory under the Solvency II legislation.

For internal purposes, Reaal Schade calculates the Solvency II position on a monthly basis. Reaal 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. Reaal 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 2016. The yield curve used as at 31 December 2016, including the Ultimate Forward Rate (UFR), Credit Risk Adjustment (CRA) and VA, is published by EIOPA.

When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Required Capital (SCR). Reaal 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. Tax offsetting (Loss Absorbing Capacity of Deferred Taxes) in the SCR is applied at 0% for VIVAT and its legal entities, except for legal entities with a net Deferred Tax Liability (DTL). In these cases tax offsetting equals the net DTL-position. The net Deferred Tax Liability on the balance sheet of Reaal Schade as at 31 December 2016 is valued at 100%.

Under Solvency II, capital is called 'eligible own funds' and is divided into three tiers. These tiers reflect the ability, with Tier 1 being the highest quality and Tier 3 the lowest. Reaal 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 shareholdes' equity:

Breakdown own funds

In € thousands	Total
Issued share capital	10,898
Share premium reserve	398,823
Retained earnings 2016	-56,654
Other reserves	3,583
Shareholders' equity	**356,650**
Reconciliation IFRS-Solvency II	39,181
Subordinated liabilities	157,946
Total eligible own funds SCR	**553,777**

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 difference in measurement under Solvency II and under IFRS:

> Technical provisions - Under Solvency II the technical provisions (including provisions for saving mortgages) are measured at fair value, taking into account the current market conditions. Currently under IFRS, the technical provisions need to be presented at fair value only if the liability adequacy test results in a deficit or if the insurer choses to measure (part of) its insurance liabilities on a fair value basis.

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 causes a difference between the Available Own Funds and the Eligible Own Funds.

Solvency Capital Requirement

In € thousands	Net SCR
Market risk	33,475
Credit default risk	13,108
Health underwriting risk	279,347
Non-life underwriting risk	214,618
Diversification	-168,366
Basic Solvency Capital Requirement	**372,182**
Operational risk	22,833
Loss-absorbing capacity of deferred taxes	-29,677
Net Solvency Capital Requirement	**365,338**

Breakdown Solvency Capital Requirement

In € thousands	2016
Total eligible own funds to meet the SCR	553,777
Unconsolidated SCR	365,338
Ratio of Eligible own funds to SCR	152%

7.5. Underwriting risk

7.5.1. Risks

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, customer behavior, catastrophes, interest and expenses) used in the development of the product and the determination of its premium. A distinction is made between Property&Casualty (P&C) and Disability. The interest rate risk related to insurance products forms part of the market risk.

7.5.2. Risk management process

Reaal Schade assesses new underwriting risks continuously and manages existing underwriting risks, for both new business and for the existing portfolio. To this end, Reaal Schade follows the processes of the risk management cycle for each phase of a defined insurance life cycle.

Capital requirement

The expected capital needs are based on the Operational Plan (OP). The OP describes the planned development of the portfolio for the next three years, based on the strategy of the management of VIVAT. The OP sets out in broad terms whether Reaal Schade wants to enter new markets, which forms of distribution will be used, whether new (forms of) 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, if applicable, the internal pricing curve. Furthermore, criteria related to profitability and risk control measures (acceptance criteria, clauses, any reinsurance) have to be met.

The Product Committee (PC), in which the Solvency II second line Key Functions are represented, is responsible for approval new products, including the pricing. Reaal Schade performs product reviews following a risk based product review calendar.

7.5.3. Non-life

For the subdivision of risks into sub-risks in the Non-life insurance portfolios, Reaal Schade makes a distinction between disability insurance and Property & Casualty insurance.

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 the direct channel. The disability insurance products in the portfolio include both individual coverage (for self-employed persons) and group coverage for employees. Only individual insurance contracts were being sold in 2016.

7.5.3.1. Disability

Reaal Schade pays disability benefits that stem from the individual and group portfolio.

Disability, recovery risk and lapse risk

In the case of disability insurance, 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. The 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.

Reaal Schade manages this risk by continuously monitoring the inflow, outflow and by promoting/offering reintegration pathways.

7.5.3.2. Property & Casualty

The risks of Property & Casualty (P&C) can be divided into risks related to future claims arising from current contracts (premium risk and catastrophe risk) and risks related to claims, whether reported or not, that have already occurred (reserve risk).

Reserve risk

Reserve risk is the risk that the accrued claims reserves are insufficient to settle all claims already incurred. Reaal Schade manages this risk by means of monitoring best estimate trends in the claims development based on claim year on a regular basis. Reaal 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 Reaal Schade are disability claims, bodily injury claims and liability claims.

A liability adequacy test on the (IFRS) premium and claims reserves is performed once a quarter, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insights as to parameters are involved 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. 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 channel.

Premium risk

Premium risk is the risk that premiums pertaining to future exposure are insufficient to meet all corresponding claims and costs. Reaal Schade manages this risk by means of the product development, pricing and acceptance procedures as described in Section 7.5.2.

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 Reaal 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. Reaal 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 environ- mental insurance pool, specifically insured risks are shared with other insurers.

Co-Insurance

Reaal Schade is represented at the Rotterdam Insurance Exchange through its co-insurance unit. Risks in the Fire, Transport and Liability segments are underwritten. The focus is on the medium-sized and large business segments of the corporate insurance market.

7.5.3.3. Non-life reinsurance

The level of retention of the Reaal Schade Non-life reinsurance contracts is in line with the size of the portfolios. 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, Reaal Schade has concluded a catastrophe contract for covered natural perils (storm, hail) and the accumulation of losses due to one event within the fire portfolio.

The 2016 reinsurance program was largely a continuation of the program for 2015. From capital management considerations, the capacity of the catastrophe programme is aligned with the Risk Appetite of Reaal Schade.

The impact of the hailstorm of June 2016 was gross € 24.9 million, but capped to € 20 million due to the catastrophe cover with the reduced aforementioned priority of € 20 million.

The reinsurance programme for 2017 did not change significantly in respect of retention and capacity of the different contracts. The capacity of the catastrophe programme reduced slightly to be aligned with the Risk Appetite of Reaal Schade. Furthermore the retention of General Liability increased to € 1.5 million. For the other lines of business, both the retention and the capacity remain the same compared to 2016.

Non-life insurance retention

In € thousands		2017	2016	2015
Coverage:				
Fire	per risk	2,000	2,000	1,000
Motor third-party liability	per risk	2,500	2,500	2,500
General liability	per risk	1,500	1,000	1,000
Accidents	per risk	750	750	750
Transport	per risk	1,000	1,000	1,000
Disability (risk capital)	per risk	1,500	1,500	1,500
Catastrophe	per event	20,000	20,000	25,000

7.5.3.4. Sensitivities

The own funds of the Non-life insurer are sensitive to results in the Non-life claims. The table below shows the sensitivity of the profit after taxation in the event of a 10% increase or 10% decrease in Non-life claims. These sensitivities are based on a one-off increase or decrease of the incurred losses in the relevant financial year under Non-life insurance policies.

Sensitivity of result to movements in Non-life claims

	Net result		Shareholders' equity	
In € millions	2016	2015	2016	2015
Claims +10%	-32	-33	-32	-33
Claims -10%	32	33	32	33

7.6. Market risk

7.6.1. Risks

Market risks can potentially have a substantial financial impact on the value of the assets and liabilities of the insurance business. Unfavorable changes in the market have an impact on Reaal 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 optimizes the relationship between risks and returns. The framework also ensures that Reaal Schade's operations remain within the boundaries of its risk appetite.

The market risk is the risk arising from the level or volatility of market prices of financial instruments which have an impact of the value of the assets and liabilities of Reaal Schade. The ALM-framework aims to properly reflect the structural mismatch between assets and liabilities, in particular with respect to the duration thereof.

The following eight sub-market risks have been defined: interest rate risk, equity risk, property risk, currency risk, spread risk, volatility risk, basis risk and market risk concentrations. Reaal 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. The sensitivities of the IFRS Equity movement are of similar magnitude and direction as the own funds movement under Solvency II.

The Balance Sheet Management department (BSM) aims to stabilize solvency and manage capital of VIVAT and its subsidiaries, including Reaal Schade. BSM monitors and mitigates market risk in close cooperation with ACTIAM, the asset manager of VIVAT, including Reaal Schade. For mitigation instruments such as interest rate swaps, 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, credit 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. In order to spread the risk, the risk budget is spread across a range of risk drivers, asset classes and sectors. When finalizing the SAA, specific attention is paid to the availability of sufficient expertise in the segments in which investments are held. Through ACTIAM, investments are monitored by means of reports on performance and capital.

Investments are made in accordance with the prudent person principle and in the interests 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 market risk. These risks are quantified (and monitored) separately.

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.

Stress scenarios are monitored and reported once a month and also on an ad hoc basis if movements in the market (and in particular the yield curve) give grounds to do so.

Furthermore, monthly single-shock sensitivity analyses are performed, which combine a top-down and bottom- up approach. For each product group, the products and models are analyzed, following which the best form of hedge for the product group is considered. The bottom- up-process involves analyzing the effectiveness of the hedge with respect to the embedded options at product level.

The top-down 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. Interest rate risk

Interest rate risk is defined as the sensitivity of the value of assets and liabilities to changes in the interest rate term structure or the volatility of interest rates.

Interest rate risk is a key component of Reaal Schade's market risk profile. Interest rate risk arises when the interest rate sensitivities of the assets and liabilities are not completely equal and it is expressed as movements in the result and/or capital position if market rates change. Moreover the expected fixed cash flows from insurance liabilities are matched with fixed-income investments as much as possible. The return guarantees given to policyholders are an additional source of interest rate risk.

Reaal Schade's interest rate hedging policy aims to ensure that obligations towards policyholders are fulfilled in both the short term and the long term. In addition, it aims to enable its providers of capital to enjoy a reasonable return (in terms of market value) that is in line with Reaal Schade's risk exposure and to stabilize the solvency capital. Reaal Schade manages its interest rate risk, by stabilizing the Solvency II ratio after an up or down interest rate shock.

Basis S2 curve	152%
Basis +1% S2 curve	164%
Basis -1% S2 curve	139%

The sensitivities of the Solvency II ratio are determined using a parallel shock on the interest rate curve of 1%, keeping the Ultimate Forward Rate (UFR) at the same level. The sensitivity for the UFR is shown in paragraph 7.6.4 Spread risk and Basis risk.

Reaal 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 DNB. This method is chosen because solvency is the principal factor in managing market risks.

Interest rate risk broken down 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 2016

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	130,934	339,606	159,467	122,269	91,257	93,636	**937,169**
Total	**130,934**	**339,606**	**159,467**	**122,269**	**91,257**	**93,636**	**937,169**

Cash flows from insurance business 2015

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Non-life	208,373	348,824	160,633	119,757	86,251	89,662	**1,013,500**
Total	**208,373**	**348,824**	**160,633**	**119,757**	**86,251**	**89,662**	**1,013,500**

The cash flows from the underwriting provisions concern cash flows with a nominal guarantee. This does not include cash flows driven by options and guarantees and 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. It is important to bear in mind that the Ultimate Forward Rate of 4.2% (UFR) prescribed by EIOPA also introduces a risk. It limits the interest rate sensitivity of the cash flows of the liabilities included in the above table. Over the course of time, the downward pressure of the UFR on the interest rate sensitivity of the liabilities will disappear.

7.6.4. Spread risk and Basis 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 corporate and government bonds that are sensitive to changes in credit risk surcharges. Growing 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 synchronous 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 Reaal Schade’s own asset portfolio, and also a 65% scaling factor is applied to determine 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.

Moreover, from this perspective, it is important to bear in mind that the UFR of 4.2% prescribed by 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 (see also Section 7.6.3). EIOPA currently evaluates the UFR and the outcome of this evaluation is uncertain. In case, the regulator decides to decrease the UFR, and assuming Reaal Schade will not adjust its risk management, this will have a negligible impact on net result, own funds and solvency due to the short term nature of the business.

In € millions	Net result 2016	Net result 2015	Shareholders' equity 2016	Shareholders' equity 2015
Interest rates -0,5%	-	-	-	-
Interest rates +0,5%	-	-	-	-
Credit spreads Corporate Bonds +0.5%	-4	-4	-4	-4
Credit spreads Sovereign Bonds +0.5%	-18	-20	-18	-20

7.6.5. Equity risk

Equity risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of the market prices of equities, respectively. The equity and similar investments of the insurance business amounted to € 230 million at year-end 2016 (2015: € 152 million).

The IFRS-based equities classification also includes participations in funds that invest in other types of securities. The ALM policy and the market sensitivities are adjusted to reflect the underlying risk under Solvency II and the economic approach ("look through"). Reaal Schade periodically examines the impact of changes in the equity markets on the result and on own funds. Scenario analyses are used for this purpose, in line with the situation applying in the case of interest rate risk.

The table below shows the results of this analysis at the reporting date net of taxation. Upward effects of shares are processed in the revaluation reserve and do not impact earnings.

Sensitivity of insurance business to equity prices

In € millions	Net result 2016	Net result 2015	Shareholders' equity 2016	Shareholders' equity 2015
Equities +10%	-	-	3	3
Equities -10%	-	0	-3	-3

An increase of the value of equities goes through the revaluation reserve in the shareholders' equity and does not influence the net result. A decrease does influence the net result in case of an impairment (for the accounting policies on impairments see Section 6.1.5 Accounting policies for the statement of financial position).

7.6.6. Property risk

Property risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of the market prices of real estate.

Reaal Schade is not exposed to property risk.

7.6.7. 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.

Reaal Schade's has no foreign exchange exposure.

7.6.8. Volatility risk

The volatility risk is the risk of losses due to changes in volatility (parameters) and is measured and presented separately. It is addressed in the market sub risks as described before. Reaal Schade is not sensitive for volatility risk.

7.6.9. 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. The main concentration within the market risk emanates from credit default risk.

This risk is measured as Loss At Default (LAD) and Stress Loss (SL), and under the ALM policy the relevant limits must be complied with. Reaal Schade uses this limit structure to monitor exposures to counterparties. The reports are discussed by the Investment Committee, and appropriate measures are taken when limits are exceeded. Credit default risk is discussed in the next paragraph.

7.7. Credit default risk

7.7.1. Risks

Reaal Schade defines credit 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 credit default risk policy covers risk-mitigating contracts, such as reinsurance arrangements, securitisations and derivatives, and receivables from intermediaries, as well as any other credit exposures not covered by the definition of spread risk. It takes into account collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith. For each counterparty, it takes into account the overall credit default risk exposure of the insurance or reinsurance undertaking concerned to that counterparty, irrespective of the legal form of its contractual obligations to that undertaking. The credit default risk is measured by measuring exposures on individual parties ("ultimate parent exposure") as well as on segments and countries.

7.7.2. Risk management process

The Balance Sheet Management department (BSM) manages and verifies credit 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 credit default risk at Reaal 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 default 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 credit default risk within the interest-bearing investment portfolios of Reaal 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 credit default risk related to the market value of the derivatives held by Reaal 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 credit risk. See also Section 6.3, note 29 Hedging, which describes how derivatives are used for hedging purposes.

Reinsurance

Reaal 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 consists of reinsurers with at least an A- rating, while the panel for disability reinsurance contracts consists of reinsurers with at least an AA- rating. Continuity within the panels of reinsurers is an important principle.

7.8. Liquidity risk

7.8.1. Risks

Liquidity risk is defined as the risk that Reaal 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 Reaal 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 Reaal Schade is able to fulfil her 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).

Reaal 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 the indicator for the overall liquidity position of Reaal Schade and takes into account all available assets and the impact of an interest shock and a mass lapse. Monitoring of this buffer accounts for an important part of the daily activities of the Reaal Schade.

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, Reaal 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.

The available assets consist of government bonds, corporate bonds and other investments (i.e. loans, deposits, equities and mortgages).The amount of available assets is adjusted (haircuts) based on eligible collateral, the level of illiquidity of the assets and expert judgement. Utilized liquidity refers to transactions such as repurchase agreements, or collateral posted.

Liquidity buffer

In € thousands	2016	2015
Available assets	1,448,100	1,487,200
Total haircuts	-325,400	-338,500
Available liquidity	**1,122,700**	**1,148,700**
Required liquidity	-136,800	-141,500
Liquidity buffer	**985,900**	**1,007,200**

7.8.4 Maturity schedule for financial liabilities

The table below shows the undiscounted cash flows from the principal financial liabilities, other than derivatives and liabilities from investments for account of third parties, by contract maturity date.

Liquidity calendar financial liabilities 2016

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debts	–	–	–	–	-150,000	**-150,000**
Loans due to customers	–	–	–	–	-22,968	**-22,968**
Amounts due to banks	-22,309	–	–	–	–	**-22,309**
Total	**-22,309**	**-**	**-**	**-**	**-172,968**	**-195,277**

Liquidity calendar financial liabilities 2015

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debts	–	–	–	–	-80,000	**-80,000**
Loans due to customers	–	-1,255	–	–	-24,541	**-25,796**
Amounts due to banks	-2,351	–	–	–	–	**-2,351**
Total	**-2,351**	**-1,255**	**-**	**-**	**-104,541**	**-108,147**

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

Liquidity calendar derivatives 2016

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	–	–	–	-10,321	–	**-10,321**
Total	**-**	**-**	**-**	**-10,321**	**-**	**-10,321**

Liquidity calendar derivatives 2015

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	–	–	–	-7,133	–	**-7,133**
Total	**-**		**-**	**-7,133**	**-**	**-7,133**

7.9. Non-financial risks

7.9.1. Risks

The Non-Financial Risk department (NFR), which is part of the Risk department resorting under the CRO, monitors and provides advice to management on compliancy risk and operational risk.

Compliance risk

Compliance risk is the risk that an organization 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 Reaal Schade, for example conviction of payment in fines, compensation, disciplinary action, imprisonment or exclusion proceedings.

Laws and regulations within scope consist a.o. 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 non-financial risks, such as the Dutch Financial Supervision Act (Wft), the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*), the Dutch Sanctions Act, as well as relevant European laws such as Solvency II, AIFMD and guidance from the Dutch Association of Insurers and other relevant bodies.

Operational risk

Operational risk is the risk of direct or indirect losses due to inadequate or deficient internal processes and systems, owing to inadequate action being taken, human error or external events. In this sense, operational risk is overarching in nature. It consist of Customer, Products and Business Conduct, Execution & Process Control, IT Risk, Fraud risk, Damage to physical assets, Staff & security and Model risk, monitored according to the Solvency II classification.

7.9.2. Risk management process

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

Risk identification

Reaal Schade systematically analyses integrity and operational risks based on risk assessment and risk analysis, and gives insights to and reports on them.

Risk measurement

In addition Reaal Schade initiates integrity-investigations, risk self-assessments and incident analysis. In consultation with the business NFR assesses the level of risk maturity (management controls), the structure and effectiveness of process controls and mitigating measures within the first line to manage the non-financial risks.

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 with risk reports such as an integrated incident report, the Non-Financial Risk Appetite report and the report on 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 integrity risks.

Risk monitoring and reporting

NFR is represented in the Risk Committee Supervisory Board, the VRC, the PC and in the ORC and PMP MTs (see Section 7.2.5) of VIVAT. NFR monitors the implementation of laws and regulations on progress and also on design, existence and operation of the first line responsibility to implement laws and regulations. Within the PMP MTs NFR advices on the development, evaluation and approval of products in accordance with laws, regulations, the AFM criteria and criteria related to treating customers fairly.

Each quarter NFR draws up a non-financial risk report, which provides a comprehensive overview of the major non- financial risks and incidents within Reaal Schade. A summary of the NFR report is included in the Risk management Function Report (RFR as mentioned in Section 7.2.5).

7.9.3. Developments

The VIVAT organization, including Reaal Schade, faced a period of transition during 2016. Although this will bring new opportunities and sustainability this transition period challenged and stretched the organization and our people and increased the risk of the materialization of non-financial risks.

Implementing the new operating model and governance structure, strong focus on cost reduction and earnings models, job uncertainty, changes in products, methodologies and processes, the speed of required changes and cultural changes had a strong impact and influenced operational and compliance risks. These risks are addressed, managed and monitored within Reaal Schade to maintain a sound and controlled organization.

7.9.4. Exposure to non-financial risks

During 2016 Reaal Schade faced challenges regarding managing and mitigating Compliance and Operational Risks. In this paragraph the main developments and risks are described. Reaal 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, FATCA, ILM, Privacy and Supply Chain Responsibility, changes to the pension legislation (Witteveen, net graduated scale), legislation may not be implemented in good time as a result of which Reaal Schade would not be compliant and would inter alia suffer reputational damage as a result.

Privacy risks are lurking due to new legislation both in the Netherlands and in the EU (General Data Protection Regulation) and special precautions need to be taken to avoid data breaches when personal data is transferred to third parties and especially to countries outside the EU that do not provide an adequate level of protection. ITC has set up a broad privacy programme in order to pay full attention to Reaal Schade's compliancy with the privacy regulation.

Operational Risk

Execution and process control

Based on strategic developments and choices VIVAT, including Reaal Schade, had chosen for an accelerated reorganisation resulting in a relatively large number of employees leaving the workforce of the company in 2016. Also in multiple parts of the organization new (senior) management was introduced. Furthermore during 2016 Reaal Schade was running a number of complex projects such as Solvency II, system conversions and data management.

During 2016 Reaal Schade continued to invest in the development of the control environment by the strategic programmes Solvency II, Data management and ICF, resulting in improved process controls, management information, risk management policies and first line risk maturity. These improvements significantly contribute to managing the organization.

Rationalization of the model landscape, in which the number of models is further reduced and the reporting process is further automated, is a strategic programme executing in 2017. It contributes to a more efficient and reliable valuation of underwriting and market risks and the solvency, and leads to further reduction of model risk. Given the validation of a number of models in several segments the model risk has been further reduced in 2016. Uncertainty resulting from conversion projects has been mitigated by successful finalising or continuous monitoring, applying workarounds and a process for early provisioning in the accounts.

Information Technology

To realise more efficiency Reaal Schade is busy rationalising the IT landscape. The target IT landscape has been defined, and non-target systems are being made obsolete. Beside this, the IT focus is on innovations like new and modern apps. The IT organisation is implementing the new Agile way of working, to improve on efficiency and to decrease time-to-market. Reaal Schade started the IT cooperation with the other European Anbang companies like Fidea and Nagelmackers to achieve synergy in IT. Reaal Schade 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.

Outsourcing / Cloud computing

Reaal Schade is shifting away from handling IT matters itself in favour of outsourcing in areas of the consumer value chain where Reaal Schade is less distinctive. Reaal Schade assesses how the required functionalities in that value chain can be purchased or outsourced as components. Reaal Schade performs risk assessments for new outsourcing initiatives, the results of which are reflected in the contracts with outsourcing partners. 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 2016 no major incidents related to cybercrime occurred within Reaal Schade. Cybercrime will remain high on the agenda of the Reaal Schade management. Appropriate organisational and technological measures will be taken in order to be able to tackle the cybercrime risks, like the cooperation with the National Cyber Security Center and other major Dutch insurance companies.

Staff and security

Due to strategic developments and a new strategy a large number of employees left the workforce of the company in 2016 resulting in a relatively highstaff turnover in 2016. Reaal Schade has been well aware of the risk involved in such a substantial change and closely monitored risks on sick leave, due to heavy workload, work-related stress and possible resistance to a changing corporate culture.

8. Company financial statements

8.1. Company statement of financial position

Before result appropriation and in € thousands	Notes[1]	31 December 2016	31 December 2015	31 December 2015[2]
> Assets				
Intangible assets		3,648	20,750	51,357
Subsidiaries	1	1,153	1,153	1,153
Investments in associates		6,886	6,501	6,101
Investments		1,635,537	1,614,618	1,430,732
Derivatives		30,292	9,254	–
Deferred tax assets		3,175	3,335	11,005
Reinsurance contracts		116,853	112,666	124,943
Corporate income tax		18,173	23,672	26,671
Other assets		48,672	39,347	33,189
Cash and cash equivalents		53,043	60,517	53,870
Total assets		**1,917,432**	**1,891,813**	**1,739,021**
> Equity and liabilities				
Issued share capital[3]		10,898	10,898	10,898
Share premium reserve		398,823	398,823	198,823
Fair value reserve		87,864	79,882	85,480
Other reserves		-84,281	-5,846	101,163
Retained earnings		-56,654	-78,918	-107,203
Shareholders' equity	2	**356,650**	**404,839**	**289,161**
Subordinated debt		150,000	80,000	–
Insurance liabilities		1,236,901	1,247,638	1,289,982
Provision for employee benefits		26,036	24,083	–
Derivatives		10,321	7,133	–
Deferred tax liabilities		17,166	15,772	29,110
Amounts due to banks		22,309	2,351	–
Other liabilities		98,049	109,997	130,768
Total equity and liabilities		**1,917,432**	**1,891,813**	**1,739,021**

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 Pursuant to the requirements of IFRS 1, the statement of financial position as at 1 January 2015 is presented, since this is the first IFRS financial statement presented by Reaal Schade.
3 The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up.

8.2. Company statement of profit or loss

In € thousands	Notes[1]	2016	2015
> Income			
Premium income		666,098	686,212
Reinsurance premiums		44,998	45,779
Net premium income		**621,100**	**640,433**
Fee and commission income		28	57
Fee and commission expense		15	7
Net fee and commission income		**13**	**50**
Share in result of subsidiaries		974	828
Investment income		19,008	22,817
Result on derivatives		17,864	685
Total income		**658,959**	**664,813**
> Expenses			
Technical claims and benefits		438,373	443,906
Acquisition costs for insurance activities		128,880	143,619
Staff costs		109,779	120,183
Depreciation and amortisation of non-current assets		6,719	5,632
Other operating expenses		31,348	23,891
Impairment losses		12,308	31,913
Other interest expenses		7,145	1,115
Total expenses		**734,552**	**770,259**
Result before taxation		**-75,593**	**-105,446**
Taxation		-18,939	-26,528
Net result continued operations for the period		**-56,654**	**-78,918**
> Attribution:			
Net result continued operations attributable to shareholders		-56,654	-78,918
Net result continued operations for the period		**-56,654**	**-78,918**

[1] The references next to the income statement items relate to the notes to the company statement of profit or loss in Section 9.2.

8.3. Company statement of total comprehensive income

Company statement of other comprehensive income

In € thousands	2016	2015
> Items that will not be reclassified subsequently to profit or loss		
Changes in valuation of defined benefit pension plan	483	194
Total items never reclassified to profit or loss	**483**	**194**
> Items that may be reclassified subsequently to profit or loss		
Change in fair value reserve	7,982	-5,598
Total items that may be reclassified to profit or loss subsequently	**7,982**	**-5,598**
Other comprehensive income (after taxation)	**8,465**	**-5,404**

Company statement of total comprehensive income

In € thousands	2016	2015
Net result for the period	-56,654	-78,918
Other comprehensive income (after taxation)	8,465	-5,404
Total comprehensive income	**-48,189**	**-84,322**
> Attribution:		
Total comprehensive income attributable to the shareholder	-48,189	-84,322

8.4. Company statement of changes in equity

Company statement of changes in equity 2016

In € thousands	Issued share capital[1]	Share premium	Sum fair value reserves	Sum other reserves	Shareholders' equity
Balance as at 1 January 2016	**10,898**	**398,823**	**79,882**	**-84,764**	**404,839**
Unrealised revaluations	-	-	8,311	-	8,311
Realised gains and losses through profit or loss	-	-	-329	-	-329
Changes in valuation of defined benefit pension plan	-	-	-	483	483
Amounts charged directly to total equity	**-**	**-**	**7,982**	**483**	**8,465**
Net result 2016	-	-	-	-56,654	**-56,654**
Total result 2016	**-**	**-**	**7,982**	**-56,171**	**-48,189**
Capital issue	-	-	-	-	**-**
Total changes in equity 2016	**-**	**-**	**7,982**	**-56,171**	**-48,189**
Balance as at 31 December 2016	**10,898**	**398,823**	**87,864**	**-140,935**	**356,650**

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

Reaal Schadeverzekeringen NV announces that, similar to 2015, no dividend will be distributed for 2016.

Statement of revaluation reserves and other reserves 2016

In € thousands	Fair value reserve	Sum revaluation reserves	Other reserves	Result of the year	Sum other reserves
Balance as at 1 January 2016	**79,882**	**79,882**	**-5,846**	**-78,918**	**-84,764**
Transfer of net result 2015	**-**	**-**	-78,918	78,918	**-**
Transfers 2015	**-**	**-**	**-78,918**	**78,918**	**-**
Unrealised revaluations	8,311	**8,311**	-	-	**-**
Realised gains and losses through profit or loss	-329	**-329**	-	-	**-**
Changes in valuation of defined benefit pension plan	-	-	483	-	**483**
Amounts charged directly to total equity	**7,982**	**7,982**	**483**	**-**	**483**
Net result 2016	-	-	-	-56,654	**-56,654**
Total result 2016	**7,982**	**7,982**	**483**	**-56,654**	**-56,171**
Capital issue	-	-	-	-	**-**

In € thousands	Fair value reserve	Sum revaluation reserves	Other reserves	Result of the year	Sum other reserves
Total changes in equity 2016	**7,982**	**7,982**	**-78,435**	**22,264**	**-56,171**
Balance as at 31 December 2016	**87,864**	**87,864**	**-84,281**	**-56,654**	**-140,935**

Company statement of changes in equity 2015

In € thousands	Issued share capital	Share premium	Sum fair value reserves	Sum other reserves	Shareholders' equity
Balance as at 1 January 2015	**10,898**	**198,823**	**85,480**	**-6,040**	**289,161**
Unrealised revaluations	-	-	-4,991	-	-4,991
Realised gains and losses through profit or loss	-	-	-607	-	-607
Changes in valuation of defined benefit pension plan	-	-	-	194	194
Amounts charged directly to total equity	**-**	**-**	**-5,598**	**194**	**-5,404**
Net result 2015	-	-	-	-78,918	**-78,918**
Total result 2015	**-**	**-**	**-5,598**	**-78,724**	**-84,322**
Capital issue	-	200,000	-	-	**200,000**
Total changes in equity 2015	**-**	**200,000**	**-5,598**	**-78,724**	**115,678**
Balance as at 31 December 2015	**10,898**	**398,823**	**79,882**	**-84,764**	**404,839**

Statement of revaluation reserves and other reserves 2015

In € thousands	Fair value reserve	Sum revaluation reserves	Other reserves	Result of the year	Sum other reserves
Balance as at 1 January 2015	**85,480**	**85,480**	**101,163**	**-107,203**	**-6,040**
Transfer of net result 2014	**-**	**-**	-107,203	107,203	**-**
Transfers 2014	**-**	**-**	**-107,203**	**107,203**	**-**
Unrealised revaluations	-4,991	**-4,991**	-	-	**-**
Realised gains and losses through profit or loss	-607	**-607**	-	-	**-**
Changes in valuation of defined benefit pension plan	-	-	194	-	**194**
Amounts charged directly to total equity	**-5,598**	**-5,598**	**194**	**-**	**194**
Net result 2015	-	-	-	-78,918	**-78,918**
Total result 2015	**-5,598**	**-5,598**	**194**	**-78,918**	**-78,724**
Capital issue	-	-	-	-	**-**
Total changes in equity 2015	**-5,598**	**-5,598**	**-107,009**	**28,285**	**-78,724**
Balance as at 31 December 2015	**79,882**	**79,882**	**-5,846**	**-78,918**	**-84,764**

8.5. Company cash flow statement

In € thousands	2016	2015
> Cash flow from operating activities		
Operating profit before taxation	-56,654	-78,918
> Adjustments for:		

In € thousands	2016	2015
Depreciation and amortisation of non-current assets	6,719	5,632
Changes in insurance liabilities (claims paid)	-443,496	-467,730
Changes in other provisions	1,953	24,083
Impairment charges / (reversals)	12,308	31,913
Retained share in the result of associates	-385	-400
Taxes (paid) received	5,499	2,999
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	19,958	2,351
Change in other operating activities	402,161	414,347
Net cash flow from operating activities	**-51,937**	**-65,723**
> Cash flow from investment activities		
Sale and redemption of investments and derivatives	1,094,729	569,301
Purchase of investments and derivatives	-1,120,266	-776,931
Net cash flow from investment activities	**-25,537**	**-207,630**
> Cash flow from finance activities		
Issue of shares and share premium	-	200,000
Issue of subordinated loans	70,000	80,000
Net cash flow from financing activities	**70,000**	**280,000**
Cash and cash equivalents 1 January	60,517	53,870
Change in cash and cash equivalents	-7,474	6,647
Cash and cash equivalents as at 31 December	**53,043**	**60,517**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	35,076	36,542
Dividends received	164	667
Interest paid	692	983

9. Notes to the company financial statements

9.1. Accounting policies to the company financial statements

General information

Reaal Schadeverzekeringen N.V. prepares its company financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

A list of consolidated entities, referred to in Articles 379 and 414 of Book 2 of the Dutch Civil Code, has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

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

Movements in the carrying amounts of subsidiaries due to changes in their revaluation, cash flow, fair value and profit-sharing reserves are recognised in shareholders' equity.

Movements in the carrying amounts arising from the share of profit of subsidiaries are recognised in accordance with the accounting policies of Reaal Schade in profit or loss. The distributable reserves of subsidiaries are recognised in other reserves.

Loans to and from group companies

Loans (including subordinated loans) to and from group companies are recognised at amortised cost.

9.2. Notes to the company financial statements

1. Subsidiaries

Statement of changes in subsidiaries

In € thousands	2016	2015
Balance as at 1 January	1,153	1,153
Balance as at 31 December	**1,153**	**1,153**

At year-end 2016, Reaal Schade wholly owned the following group entities:

> Nieuw Rotterdam Knight Schippers BV
> W.Haagman & Co BV
> Volmachtkantoor Nederland BV

2. Equity

In € thousands	2016	2015
Equity attributable to the shareholder	356,650	404,839
Total	**356,650**	**404,839**

The change in Equity attributable to shareholders in 2016 was caused by net result 2016 (minus € 56,654 thousands) and the change in Other Comprehensive Income (€ 8,465 thousands). For further details on group equity, see Section 8.4, Company statement of changes in equity.

The amount of € 356,650 thousands includes € 87,864 thousands of reseves which are restricted and may not be paid out.

Issued share capital

The share capital amount to € 45,400,000 and comprises 100,000 ordinary shares with a nominal value of € 454 each. Of all shares, 25,000 shares are issued and € 10,898,420.62 paid up. In 2014, an amendment on the articles of association was issued.

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

For details on Reaal Schadeverzekeringen NV's related parties, see Note 15 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 2016 of VIVAT NV.

6. Appropriation of profit or loss

Loss for 2016: € 57 million.The result for 2016 will be added to the other reserves of Reaal Schadeverzekeringen NV.

Amstelveen, the Netherlands, 31 May 2017

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)

F. Zhang

L. Tang

X.W. Wu

Y. Cao

W.M.A. de Ruiter-Lörx

J.C.A. Potjes

10. Other information

10.1. Provisions in Articles of Association governing the appropriation of profit or loss

Article 41 Profit and loss; general

1. The profits shall be at the free disposal of the general meeting.

2. The company may only make distributions to shareholders and other persons entitled to the distributable profits to the extent its equity exceeds the total amount of its issued share capital and the reserves which to be maintained pursuant to the law.

3. Distribution of profits shall take place following the adoption of the annual accounts from which it appears that such distribution is allowed.

Article 42 Profit and loss; distributions

1. Dividends shall be due and payable fourteen days after having been declared, unless upon the proposal of the management board the general meeting determines another date thereof.

2. Dividends that have not been collected within five years after they became due and payable shall revert to the company.

3. If the general meeting so determines on the proposal of the management board, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of what is provided in Section 2:105, paragraph 4, of the Dutch Civil Code.

4. A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by the law.

Independent auditor's report

To: the shareholder and supervisory board of REAAL Schadeverzekeringen N.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Reaal Schadeverzekeringen N.V., based in Amstelveen ('REAAL´ or 'the Company') as set out on pages 39 to 132.

In our opinion The accompanying financial statements give a true and fair view of the financial position of REAAL as at 31 December 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) 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 2016
- The following statements for 2016: the consolidated and company statement of profit or loss, the consolidated and company statement of comprehensive income, the consolidated and company statement of changes in equity and the consolidated and company cash flows statement
- 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 REAAL in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€ 3.75 million
Benchmark applied	Approximately 1% of REAAL´s Shareholder's equity
Explanation	REAAL´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 the REAAL's Shareholder's funds.

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

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of € 187,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

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.

Key Audit Matter	Our audit approach
Fair value measurement of investments and related disclosures	
REAAL invests in various asset classes, of which 87% is carried at fair value in the balance sheet. Of these assets, 3% is related to investments for which no published prices in active markets are available. Fair value measurement can be subjective, and more so for areas of the market reliant on model based valuation or with weak liquidity. Valuation techniques for non-listed equities and derivatives involve setting various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Associated risk management disclosure is complex and dependent on high quality data. Specific area of audit focus include the valuation of Level 3 assets where valuation techniques are applied in which unobservable inputs are used.	We assessed and tested the design and operating effectiveness of the controls over valuation, independent price verification and model validation and approval. We performed additional procedures for areas of higher risk and estimation such as derivatives and for non-listed equities with the assistance of our valuation specialists. This included, where relevant, comparison of judgments made to current and emerging market practice and re-performance of valuations on a sample basis. We also assessed the impact of other sources of fair value information including gains or losses on disposal and fair value information based on the Company's own purchase transactions. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosure of the fair value hierarchy in note 28.
Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
REAAL has insurance contract liabilities of € 1.2 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 judgement in the setting of: ▶ the number of claims incurred but not reported, and their financial effect. ▶ the development of claims amounts, including morbidity, recovery and mortality rates for bodily injury and disability covers.	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 assumptions of the calculation of the insurance liabilities and the LAT with reference to company and industry data and expectations of future developments. 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

Key Audit Matter	Our audit approach
▸ the effect of the estimates used in accounting for the distribution channels including Authorized Agents. The Company's IFRS liability adequacy test (LAT) is a key test performed in order to ensure that insurance liabilities are adequate in the context of expected future cash outflows, and as such an important attention point for our audit. Since year-end 2016, the Company uses a new model for the IFRS LAT of the Health SLT portfolio. This model uses Solvency II principles as a basis. The Company disclosed the impact of this change in estimate in the financial statements.	understanding of developments in the business and our expectations derived from market experience. Further, we considered the validity of the Company's IFRS LAT results by assessing the reasonableness of the projected cash flows and challenging the assumptions adopted, based on Company's and industry experience data, expected market developments and trends. Our work on the IFRS LAT included the assessment of the new Health SLT model. We considered whether REAAL's disclosures in note 10 of the financial statements in relation to insurance contract liabilities and liability adequacy test results are compliant with the relevant accounting requirements.
Solvency	
In the section Managing Risks (section 7.4.5 Capital Position) of the financial statements, REAAL discloses its capital position as at year-end 2016 in accordance with Solvency II regulations which became effective on 1 January 2016. These disclosures provide information on the capital position of REAAL on a regulatory basis (Solvency II), based on Standard Formula, of accounting compared to an IFRS basis. The determination of the Solvency II ratio involves judgment in respect of methodologies used and setting best estimate assumptions. Specifically, judgment is involved in: ▸ Determining the best estimate insurance liabilities ▸ Assumptions underlying the application and calculation of loss absorbing capacity of deferred taxes in the calculation of the Solvency Capital Requirement.	We involved our actuarial specialists to assist us in performing our audit procedures with regard to the Solvency II calculations, which included among others: ▸ Consideration of the appropriateness of the model used in the valuation of the best estimate insurance liabilities by reference to Company and industry data and expectations of future disability and recovery and expense developments. ▸ Consideration of the methodology and assumptions for loss absorbing capacity of deferred taxes in the calculation of the Solvency Capital Requirement by reference to the Company and industry data and results of internal and external reviews of the methodologies and assumptions performed during the year. We assessed the design and operating effectiveness of the internal controls over REAAL's Solvency II calculations. This included, where relevant, interpretation of guidelines, comparison of judgements made to current and emerging market practice and re-performance of calculations on a sample basis. We considered whether the Company's disclosures in note 7.4.5 of the financial statements in relation to capital management are compliant with the relevant accounting requirements.

Unaudited corresponding figures

We have not audited the financial statements 2015. Consequently, we have not audited the corresponding figures included in the statements of profit or loss, comprehensive income, changes in equity and cash flows and the related notes.

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:

- The management board's report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- Corporate governance report

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 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 management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed by the Supervisory Board as auditor of REAAL on 29 October 2015 as of the audit for the year 2016 and have operated as statutory auditor since that date.

Description of responsibilities for the financial statements

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board 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, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board 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. The Executive Board 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 assignment 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 have detected all material errors and fraud.

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 e.g.:

- 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 the Executive Board'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 the 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

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.

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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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, 31 May 2017

Ernst & Young Accountants LLP

Signed by A. Snaak