2014 Annual Report

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Contents

Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Leven) as at 31 December 2014 was and currently is as follows:

Management Board

Composition on 31 December 2014

M.F.M. (Michel) van Elk (53), CEO and chairperson

P.J. (Patrick) Dwyer (58), CFO

A.P. (Annemarie) Mijer-Nienhuis (44), CRO

E. (Edwin) van Tricht (41)

A.J. (Arthur) van der Wal (42)[1]

Resigned in 2015

A.P. (Annemarie) Mijer-Nienhuis (44), CRO[2]

E. (Edwin) van Tricht (41)[3]

Appointed in 2015

J.J. (Hans) Bonsel (51), CRO[4]

Supervisory Board

Composition on 31 December 2014

D.E. (Dorothee) van Vredenburch (50), chairperson[5]

D. (Delfin) Rueda (51), vice-chairperson[5]

S.D. (Doug) Caldwell (45)[5]

D.E. (David) Knibbe (44)[5]

Previous composition

N.C. (Nick) Jue (50), chairperson[6]

R.H.E. (Ron) van Kemenade (50)[6]

A.A. (Lex) Steenbergen (62)[6]

D.C. (Diederik) Baron van Wassenaer (57)[6]

1 Appointment as per 1 July 2014 at the General Meeting on 23 June 2014.
2 Resignation as per 10 March 2015.
3 Resignation as per 1 June 2015.
4 Appointment as per 1 June 2015 at the General Meeting on 29 May 2015.
5 Appointment as per 8 April 2014 at the General Meeting on 7 April 2014.
6 Resignation as per 8 April 2014 at the General Meeting on 7 April 2014.

NN Group and NN Leven at a glance

Nationale-Nederlanden Levensverzekering Maatschapij N.V. is part of NN Group N.V.

NN Group

NN Group N.V. ("NN Group") is an insurance and investment management company active in more than 18 countries. Over the years, NN Group's businesses have built leading positions in Europe and Japan. NN Group includes Nationale-Nederlanden, NN Insurance Europe, NN Investment Partners and NN Life Japan.

NN Group is committed to helping people secure their financial futures by offering retirement services, insurance, investment and banking products.

With more than 12,000 employees, NN Group aims to deliver high-quality service and products. NN Group provides financial services that meet individual customer needs and a customer experience that is straightforward, personal and caring. NN Group believes in engaging our customers in a partnership of equals; providing them with clarity and guidance with regard to their financial well-being.

Legal position

NN Leven is a fully owned subsidiary of Nationale-Nederlanden Nederland B.V. (NN Nederland) which in turn is a fully owned subsidiary of NN Insurance Eurasia N.V. (formerly named ING Insurance Eurasia N.V.). NN Insurance Eurasia N.V. is fully owned by NN Group.

NN Group is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. On 28 February 2014, NN Group entered into a legal merger with its wholly-owned subsidiary ING Verzekeringen N.V. ("ING Verzekeringen"), at that time a public limited liability company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. ("ING Groep"), a public limited liability company incorporated under the laws of the Netherlands. On 2 July 2014, ING Groep offered part of its shares in the share capital of NN Group to the public and these shares were listed on Euronext Amsterdam ("IPO"). After settlement of the offering on 7 July 2014 ("Settlement Date"), ING Groep held a majority of the shares in the share capital of NN Group on 31 December 2014.

NN Leven

NN Leven offers a range of group life and individual life insurance products. Its group life policies are primarily group pension products. Through NN Leven's Pension division, the company provides pension solutions to businesses of all sizes. It offers insured and non-insured pension solutions, bundled and unbundled options and works in close cooperation with pension administrator AZL and NN Investment Partners. Its individual life insurance business primarily consists of the closed-block operation of the individual life portfolios (comprising a range of discontinued products sold prior to 2012) of NN Leven and RVS Levensverzekering N.V. (RVS Leven).

NN Leven has a strong position in the Dutch pension market and offers a range of group life and individual life insurance products. It is NN Group's largest business and the second largest Dutch life insurer measured by gross premium income.

NN Leven's business centres around people and trust by acting with professionalism and behaving with integrity and skill. NN Leven believes it can build and maintain the confidence of our customers and other stakeholders. Our values: we care, we are clear, we commit set the standard for behaviour and provide a compass for decision making.

Overview

Financial Developments

Analysis of results[1]

Amounts in millions of euros	2014	2013
Investment margin	**610**	542
Fees and premium-based revenues	**344**	401
Technical margin	**-47**	222
Operating income	**907**	1,165
Administrative expenses	**392**	413
DAC amortisation and trail commissions	**64**	75
Expenses	**456**	488
Operating result	**451**	677
Non-operating items:	**39**	-356
– of which gains/losses and impairments	**-106**	-54
– of which revaluations	**106**	26
– of which market and other impacts	**39**	-328
Special items before tax	**-337**	-29
Result before tax	**153**	292
Taxation	**2**	55
Net result	**151**	237

1 In this table only the NN Leven share in the partially owned subsidiaries (Parcom Capital B.V. and REI Investment I B.V.) has been taken into account. Therefore only the Net result can be reconciled with the Consolidated profit and loss account.

Key figures

Amounts in millions of euros	2014	2013
New sales life insurance (APE)	247	224
Value of new business (VNB)	25	-53
Internal rate of return (IRR)	10.5%	4.5%
Total administrative expenses	392	413
NN Leven Solvency I ratio	258%	223%

The operating result of NN Leven decreased to EUR 451 million in 2014 from EUR 677 million in 2013, mainly due to a lower technical margin and lower fees and premium-based revenues, partly compensated by a higher investment margin and lower administrative expenses.

The investment margin increased to EUR 610 million in 2014 from EUR 542 million in 2013 driven by increased allocation to higher-yielding assets, higher invested volumes and EUR 43 million private equity dividends.

Compared with 2013, fees and premium-based revenues in 2014 decreased by EUR 57 million to EUR 344 million, reflecting the individual life closed book run-off and structural lower fee income on the unit-linked portfolio.

The technical margin decreased to EUR -47 million in 2014 from EUR 222 million in 2013. This included an increase to the reserves by EUR 133 million to maintain the reserve adequacy at the 90th percentile. The technical margin was also impacted by the movement in the unit-linked guarantee provisions; these provisions increased by EUR 43 million in 2014 following a decrease in interest rates, whereas 2013 benefited from a decrease of EUR 24 million. In addition, the technical margin in 2014 includes a EUR 20 million one-off negative impact on a legacy book of paid-up pension contracts, whereas the fourth quarter of 2013 included EUR 41 million non-recurring benefits primarily related to a provision release.

Administrative expenses decreased to EUR 392 million in 2014 compared with EUR 413 million in 2013, mainly reflecting the effects of the transformation programme in the Netherlands.

DAC amortisation and trail commissions declined with 14.7% to EUR 64 million in 2014, reflecting the gradual run-off of the individual life closed book and regulatory changes in line with the decline in new life sales and reduced acquisition costs.

The result before tax decreased to EUR 153 million compared with EUR 292 million in 2013, as the improvement in non-operating items was offset by higher special items before tax as well as the lower operating result.

The non-operating items improved to EUR 39 million compared with EUR -356 million in 2013, which included a EUR -177 million impact from the refinement of the market interest rate assumption for the separate account pension business. Higher revaluations on real estate investments also contributed to the improved non-operating items.

Gains/losses and impairments decreased to a loss of EUR 106 million in 2014 from a loss of EUR 54 million in 2013. The losses in both years were driven by impairments on the real estate. The decrease was due to lower gains on public equity which more than offset the lower real estate impairment losses.

Revaluations improved to EUR 106 million in 2014 compared with EUR 26 million in 2013 mainly reflecting higher real estate revaluations.

Overview – continued

The market & other impacts improved to EUR 39 million compared with a loss of EUR 328 million in 2013 reflecting the change in the provision for guarantees on separate account pension contracts (net of hedging). The 2013 results included a EUR -177 million impact from the refinement of the market interest rate assumption for the separate account pension business.

Special items before tax were a loss of EUR 337 million in 2014 driven by a EUR -308 million impact related to the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent. The 2013 special items primarily reflects IPO preparation costs.

New sales (APE) in 2014 increased to EUR 247 million from EUR 224 million in 2013 mainly driven by higher group pension renewals, partly offset by lower individual life sales.

The Value of New Business (VNB) for Netherlands Life improved from EUR -53 million in 2013 to EUR 25 million in 2014, largely reflecting the renewal of a few large group life contracts on more favourable terms. Consequently, the internal rate of return (IRR) increased from 4.5% in 2013 to 10.5% in 2014.

Over 2014, the Solvency I ratio of NN Leven improved from 223% to 258% at 31 December 2014, supported mainly by the issuance of EUR 1,050 million subordinated debt to NN Group and the tightening of credit spreads. This was partly offset by the impact of the pension agreement (EUR -231 million) and the capital repayment to NN Group in February 2015 (EUR 350 million).

Business developments

NN Leven operated in a complex economic, business and regulatory environment in 2014. The Dutch government continued to drive pension reforms aimed at keeping the country's pension system on a long-term sustainable footing. Low interest rates and increasing longevity have increased employers' funding costs for pension schemes. This environment has encouraged a shift from defined benefit (DB) to defined contribution (DC) pension schemes.

NN Leven offers modern pension solutions in both DB and DC, with and without guarantees. This enables employers or clients to change their retirement arrangements at a pace and with a risk profile that meets their current needs. This product suite consists of a focused set of more transparent and cost-efficient pension products, delivered through efficient IT platforms. The steady growing portion of business being directed to our DC offerings Essentiepensioen and Bewustpensioen contributed to the managing of the liability risks of NN Leven's business. This trend has led to an increased proportion of products in our book of business that have lower capital requirements.

NN Leven took steps to improve product distribution by opening new channels that aim to better service customers and increase cooperation with external partners. We launched an online employee benefits platform (Benefits Plaza), linked to the NN Leven back office, which allows employers to automate the processing of employee pension data.

NN Leven also partnered with Collectief Pensioenkiezer.nl, an online platform for SMEs, to offer direct pension advice to customers at a lower cost than a face-to-face consultation with a financial advisor. NN Leven continued to work closely with our intermediary partners in 2014.
Specialised pension advisors and international advisory firms continued to play an increasingly important role in our distribution strategy. In pensions, distribution via this type of intermediary partners accounted for 66% of our premium income in 2014, compared to 59% in 2013.
NN Leven also continued to strengthen its position as a selective provider of insurance solutions for a number of Dutch pension funds that are liquidating. For example, Dutch cement producer ENCI transferred its pension obligations to NN Leven in January 2015.

Since the end of 2006, Dutch unit-linked products have received negative public attention. In 2008, NN's Dutch insurance subsidiaries reached an outline agreement with two main consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies had a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products.
On 29 April 2015 the European Court of Justice issued its ruling on a principal legal question with respect to information provision requirements related to unit-linked products. The European Court affirmed the position of Nationale-Nederlanden, including NN Leven, that the information requirements prescribed by the European Directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for the policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Nationale-Nederlanden, including NN Leven, is of the opinion that general principles of Dutch law that are used as a legal basis in Dutch proceedings do not meet these criteria and that additional information requirements cannot be imposed retroactively. Nationale-Nederlanden, including NN Leven, continues to reach out to customers to encourage them to carefully assess their unit-linked products in order to find an appropriate solution on an individual basis. Despite this, there are still legal proceedings related to unit-linked policies pending. For more information about these legal proceedings, reference is made to Note 39 "Legal Proceedings".

Customer experience

Our clients' needs and interests play a crucial role in everything we do. It is our goal to deliver high quality products and services that are suitable, transparent and contribute to the financial well-being of our customers.

NN Leven's aim is to help customers secure their financial future. The company measures and analyses its Net Promoter Score (NPS) results and complaints, adjusting processes in line with customers' feedback and expectations. For its Pension clients NN Leven has dedicated communication specialists helping pension participants gain a better understanding of their retirement schemes.

Overview – continued

In 2014 NN Leven developed a pension application "Mijn Pensioencoach". The mobile app allows customers to get real-time information about their pension on their smartphone. Mijn Pensioencoach gives insight into the impact that decisions such as working fewer hours a week, have on a person's pension. The app also has the ability to analyse a user's personal situation and give recommendations on how to make adjustments to their pension plan in order to reach their goals. Mijn Pensioencoach was developed in consultation with customers and their advisors and tested in customer focus groups.

Supporting and developing employees

For a customer-focused organisation such as NN Leven, engaged employees are the key to success. This means attracting the right people, empowering them, giving them clear accountability and ensuring that they focus on continuous development and set ambitious but realistic goals.

Employees are encouraged to invest in themselves and in their employment prospects. Employees are given, for example, training, coaching and internships. To increase economic and job opportunities, we invest in employability, by stimulating our employees to develop and grow and offering students and graduates the opportunity to gain work experience within our company.

Sustainability

Embedding sustainability in core activities and processes remains a key priority. NN Leven strives – in its daily actions and decision making – to strike a balance between financial interest and the impact on society and the environment. This entails – amongst others – offering products and services that are suitable, transparent and contribute to the financial wellbeing of our customers.
NN Leven takes its role in society seriously. Activities range from financial education to health and well-being initiatives. They involve raising funds and employees volunteering their time for special projects.

In the field of responsible investing, NN Leven wants to invest its and its customers' assets in a responsible manner. This involves for example active asset management, with environmental and social aspects and good governance integrated in our investment processes, and offering Socially Responsible Investment funds and custom solutions for responsible investments. NN Leven has made a commitment to uphold the Sustainable Investing Code drawn up by the Dutch Association of Insurers.

Solvency II

Throughout 2014, NN Leven worked further towards meeting the European Union's Solvency II Directive's requirements, which will become effective as of 1 January 2016. Particularly with respect to adapting its data quality, risk management and reporting to the levels required.

NN Group (including NN Leven) will continue to play a role in discussions with the industry and with regulators on developing Solvency II framework so that it is robust and helps insurance companies continue to meet the long-term financial needs of their customers.

Risk management

For information regarding risk management reference is made to Note 44 "Risk management".

Conclusions and ambitions

NN Leven wants to become a more cost-effective and customer-oriented insurer with modern IT systems and excellent services. The accelerated transformation of NN Leven will improve current processes, cut out legacy systems, reduce costs and further refine our customer focus.

The pension system is in the process of fundamental changes, brought on by the economic developments combined with persistent low-interest rates and new capital requirements. In light of these developments, many companies in the Netherlands have started looking for affordable, transparent pension plans for their staff. In order to meet this requirement NN Leven expects to continue the evolution of its products and services to provide employers with appropriate and transparent solutions.

One of the major challenges in 2015 for NN Leven is the implementation of changes in legal requirements. These changes concentrate on the "Pensioenakkoord 2015" and the "Wet Pensioencommunicatie". Going forward NN Leven intends to contribute actively in the ongoing discussion with regard to the future pension reforms.

Corporate governance

Board composition
NN Leven aims to have an adequate and balanced composition of the Management Board and Supervisory Board of NN Leven ('Boards'). Thereto, annually, the Supervisory Board assesses the composition of the Boards. In the context of such assessment, NN Leven aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. However, because of the fact that NN Leven needs to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the abovementioned gender balance in 2014. NN Leven will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

Audit committee
NN Leven is exempt from the requirement to set up an audit committee pursuant to the Decree of 26 July 2008 (Bulletin of Acts and Decrees 2008, no. 323). NN Leven is a subsidiary of NN Group that has set up its own Audit Committee that satisfies all the statutory requirements concerning its composition, organisation and tasks. The Supervisory Board assumes the responsibility of the Audit Committee.

More information about the Audit Committee can be found at www.NN-Group.com and in the NN Group 2014 Consolidated annual accounts.

Financial reporting process
As NN Leven is a consolidated subsidiary of NN Group, its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by NN Group.

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

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

External auditor
On 13 May 2013, the General Meeting of ING Groep extended the appointment of Ernst & Young Accountants LLP (EY) as external auditor of ING Groep and its subsidiaries including NN Leven, for the financial years 2014 and 2015, to report on the outcome of these audits to the Management Board and the Supervisory Board and to provide an audit opinion on the financial statements. On 14 June 2013 the General Meeting of NN Leven appointed EY as external auditor for the financial years 2014 and 2015.

NN Group and ING Groep started a project with the objective of changing its external audit firm as of the financial year 2016. Pursuant to the Relationship Agreement between NN Group and ING Groep – available on the website of NN Group - ING Groep may require that the external auditor of ING Groep and NN Group are the same (but with different lead partners) at least for as long as ING Groep applies equity accounting in respect of its interest in NN Group. On 11 May 2015, the General Meeting of ING Groep appointed KPMG Accountants N.V. as external auditor for the financial years 2016 through 2019. On 28 May 2015, the General Meeting of NN Group appointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2016 through 2019. In 2015 it will be proposed to the General Meeting of NN Leven to appoint KPMG Accountants N.V. as the external auditor of NN Leven as from 1 January 2016.

The external auditor attended the meetings of the Supervisory Board on 22 May 2014 and 27 May 2015.

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

Corporate governance – continued

Governance principles and Code of Conduct

Governance Principles (Dutch Insurers' Code)

In December 2010, The Dutch Association of Insurers (Verbond van Verzekeraars) published the Governance Principles, also known as the Insurers' Code. The Insurers' Code lays out the principles for Dutch Insurance companies in terms of corporate governance, risk management, audit and remuneration. The Insurers' Code is applicable to the Dutch subsidiaries of NN Group pursuing insurance business, among which NN Leven. However, insurance companies that are part of a group can decide to apply all or parts of the Governance Principles at group level. The application of the Insurers' Code is described in the publication Application of the Insurers' Code by NN Group, dated March 2015, which is available on the website of NN Group. This publication is deemed to be incorporated by reference herein. The Insurers' Code is available on the website of the Dutch Association of Insurers (www.verzekeraars.nl).

Code of conduct for insurers

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

The Supervisory Board was informed about NN Leven's introduction of the NN statement of Living our Values (Statement). The Statement addresses customer care elements such as seeing customers as the starting point, using understandable language and carefully explaining conditions, risks, returns and costs of products and services.

Rotterdam, 30 June 2015

The Management Board

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Consolidated balance sheet of NN Leven

Amounts in thousands of euros

Consolidated balance sheet

As at 31 December

	Notes	2014	2013
Assets			
Cash and cash equivalents	2	93,368	119,327
Financial assets at fair value through profit or loss:	3		
– trading assets		591,381	723,327
– investments for risk of policyholders		19,265,559	16,398,342
– non-trading derivatives		5,356,174	1,758,287
– designated as at fair value through profit or loss		84,605	74,490
Available-for-sale investments	4	45,322,840	36,013,697
Loans	5	17,471,671	16,765,053
Reinsurance contracts	14	1,150,613	1,184,405
Associates and joint ventures	6	1,594,228	891,968
Real estate investments	7	1,154,893	777,068
Equipment		226	239
Intangible assets	8	6,741	12,058
Deferred acquisition costs	9	293,571	331,494
Other assets	10	1,534,931	2,178,536
Total assets		**93,920,801**	**77,228,291**
Equity	11		
Shareholder's equity (parent)		13,975,958	9,312,433
Minority interests		441,246	443,424
Undated subordinated loan		450,000	
Total equity		**14,867,204**	**9,755,857**
Liabilities			
Subordinated debt	12	600,000	
Other borrowed funds	13	747,555	1,453,370
Insurance and investment contracts	14	71,817,640	63,050,882
Financial liabilities at fair value through profit or loss:	15		
– non-trading derivatives		1,615,622	612,214
Other liabilities	16	4,272,780	2,355,968
Total liabilities		**79,053,597**	**67,472,434**
Total equity and liabilities		**93,920,801**	**77,228,291**

References relate to the notes starting on page 15. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account of NN Leven

Amounts in thousands of euros

Consolidated profit and loss account

For the year ended 31 December

	Notes		2014		2013
Gross premium income	17		3,088,333		3,245,302
Investment income	18		2,280,767		2,046,979
– gross fee and commission income		21,655		33,908	
– fee and commission expenses		-96,024		-77,209	
Net fee and commission income	19		-74,369		-43,301
Valuation results on non-trading derivatives	20		296,465		-168,478
Foreign currency results and net trading income	21		178,404		55,092
Share of result from associates and joint ventures	6		129,416		-28,065
Other income			-1,182		10,898
Total income			**5,897,834**		**5,118,427**
– gross underwriting expenditure		8,674,380		5,050,857	
– investment result for risk of policyholders		-3,745,529		-599,061	
– reinsurance recoveries		-221,405		-180,163	
Underwriting expenditure	22		4,707,446		4,271,633
Staff expenses	23		542,937		315,564
Interest expenses	24		263,532		92,160
Other operating expenses	25		190,216		131,650
Total expenses			**5,704,131**		**4,811,007**
Result before tax			193,703		307,420
Taxation	28		7,815		54,486
Net result			**185,888**		**252,934**
Net result attributable to:					
Shareholder of the parent			150,652		237,115
Minority interests			35,236		15,819
Net result			**185,888**		**252,934**

References relate to the notes starting on page 15. These form an integral part of the Consolidated annual accounts.

Consolidated statement of comprehensive income of NN Leven

Amounts in thousands of euros

Consolidated statement of comprehensive income

For the year ended 31 December

		2014		2013
Net result		185,888		252,934
Items that may be reclassified subsequently to the profit and loss account:				
– Unrealised revaluations available-for-sale investments and other	6,268,396		-2,021,635	
– Realised gains/losses transferred to the profit and loss account	-15,307		-82,219	
– Changes in cash flow hedge reserve	1,675,825		-765,692	
– Transfer to insurance liabilities	-3,468,536		1,377,462	
– Share of other comprehensive income of associates and joint ventures				
– Exchange rate differences	64,187		4,672	
Total other comprehensive income		**4,524,565**		**-1,487,412**
Total comprehensive income		**4,710,453**		**-1,234,478**
Comprehensive income attributable to:				
– Shareholder of the parent	4,672,511		-1,231,325	
– Minority interests	37,942		-3,153	
Total comprehensive income		**4,710,453**		**-1,234,478**

Reference is made to Note 28 “Taxation” for the disclosure on the income tax effects on each component of Other comprehensive income.

Consolidated statement of cash flows of NN Leven

Amounts in thousands of euros

Consolidated statement of cash flows

For the year ended 31 December

	Notes	2014	2013
Result before tax		193,703	307,420
Adjusted for:			
– depreciation		10,797	6,828
– deferred acquisition costs		117,929	141,614
– underwriting expenditure (change in insurance provisions)		5,252,009	-1,594,868
– other		-3,484,041	-723,259
Taxation paid		-84,538	-134,699
Changes in:			
– trading assets		131,946	-147,302
– non-trading derivatives		-2,594,479	1,392,372
– other financial assets at fair value through profit or loss		-10,115	-24,416
– loans		-81,623	245,983
– other assets		11,684	158,574
– other liabilities		621,170	-257,917
Net cash flow from operating activities		**84,442**	**-629,670**
Investments and advances:			
– associates and joint ventures		-801,375	-47,988
– available-for-sale investments		-3,985,136	-3,342,059
– real estate investments		-397,888	-202,591
– equipment			-77
– investments for risk of policyholders		-2,914,752	-3,630,576
– other investments		-3,640,495	-6,272,429
Disposals and redemptions:			
– associates and joint ventures		216,112	83,500
– available-for-sale investments		1,401,150	4,468,920
– real estate investments		48,682	229,215
– equipment		-237	1,971
– investments for risk of policyholders		6,051,040	5,669,136
– other investments		3,015,499	2,534,964
Net cash flow from investing activities	26	**-1,007,400**	**-508,014**
Proceeds from issuance of undated subordinated loan		450,000	
Proceeds from issuance of subordinated debt		600,000	
Proceeds from other borrowed funds		665,531	1,040,793
Repayments of other borrowed funds		-1,371,346	-28,169
Dividend paid		-11,981	
Capital contribution			600,000
Net cash flow from financing activities		**332,204**	**1,612,624**
Net cash flow	26	**-590,754**	**474,940**
Cash and cash equivalents[1] at beginning of the period		710,163	235,223
Cash and cash equivalents[1] at end of the period	27	**119,409**	**710,163**

1 Cash and cash equivalents includes cash and bank balances and current accounts with NN Group entities.

References relate to the notes starting on page 15. These form an integral part of the Consolidated annual accounts.

Consolidated statement of changes in equity of NN Leven

Amounts in thousands of euros

Consolidated statement of changes in equity

	Share capital	Share premium	Reserves	Total shareholder's equity (parent)	Minority interest	Undated subordinated loan	Total equity
Balance as at 1 January 2013	22,689	3,039,723	6,881,346	9,943,758	446,577		10,390,335
Unrealised revaluations available-for-sale investments and other			-2,004,326	-2,004,326	-17,309		-2,021,635
Realised gains/losses transferred to the profit and loss account			-82,219	-82,219			-82,219
Changes in cash flow hedge reserve			-765,692	-765,692			-765,692
Transfer to insurance liabilities			1,377,462	1,377,462			1,377,462
Share of other comprehensive income of associates and joint ventures							
Exchange rate differences			6,335	6,335	-1,663		4,672
Total amount recognised directly in equity (Other comprehensive income)			**-1,468,440**	**-1,468,440**	**-18,972**		**-1,487,412**
Net result			237,115	237,115	15,819		252,934
Total comprehensive income			**-1,231,325**	**-1,231,325**	**-3,153**		**-1,234,478**
Capital contribution		600,000		600,000			600,000
Balance as at 31 December 2013	**22,689**	**3,639,723**	**5,650,021**	**9,312,433**	**443,424**		**9,755,857**
Unrealised revaluations Available-for-sale investments and other			6,266,788	6,266,788	1,608		6,268,396
Realised gains/losses transferred to the profit and loss account			-15,307	-15,307			-15,307
Changes in cash flow hedge reserve			1,675,825	1,675,825			1,675,825
Transfer to insurance liabilities			-3,468,536	-3,468,536			-3,468,536
Share of other comprehensive income of associates and joint ventures							
Exchange rate differences			63,720	63,720	1,098		64,818
Other changes[1]		56,046	-56,677	-631			-631
Total amount recognised directly in equity (Other comprehensive income)		**56,046**	**4,465,813**	**4,521,859**	**2,706**		**4,524,565**
Net result			150,652	150,652	35,236		185,888
Total comprehensive income		**56,046**	**4,616,465**	**4,672,511**	**37,942**		**4,710,453**
Issuance of undated subordinated loan						450,000	450,000
Changes in the composition of the group					25,722		25,722
Dividends			-8,986	-8,986	-65,842		-74,828
Balance as at 31 December 2014	**22,689**	**3,695,769**	**10,257,500**	**13,975,958**	**441,246**	**450,000**	**14,867,204**

1 Other changes relates to the reclassification of share premium from the other reserves to the share premium reserve for a former subsidiary.

Notes to the Consolidated annual accounts of NN Leven

Amounts in thousands of euros, unless stated otherwise

NN Leven is incorporated and domiciled in Rotterdam, the Netherlands. The principal activities of NN Leven are described in "NN Group and NN Leven at a glance".

1 Accounting policies

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

- Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2008, NN Leven decided to adopt IFRS as was already applied by its parent company as of 2005. For the recognition and measurement of the provisions for liabilities under insurance contracts this included a continuation of the accounting standards generally accepted in the Netherlands (Dutch GAAP) as of 2005. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU; and
- NN Leven's accounting policy for real estate investments is fair value, with changes in fair value reflected immediately in the Consolidated profit and loss account.

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

The preparation of the Consolidated annual accounts necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

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

Changes in accounting policies in 2014

Changes in IFRS-EU

The following new standards were implemented by NN Leven on 1 January 2014:

- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and Joint Ventures";
- IFRS 12 "Disclosure of Interests in Other Entities";
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Amendments to IAS 32 "Presentation – Offsetting Financial Assets and Financial Liabilities";
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"; and
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets".

IFRS 10 "Consolidated Financial Statements"

IFRS 10 "Consolidated Financial Statements" introduced amendments to the criteria for consolidation. Similar to the requirements that were applicable until the end of 2013, all entities controlled by NN Leven are included in the Consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The requirements of IFRS 10 are generally similar to the policies and interpretations that NN Leven applied prior to the introduction of IFRS 10. Therefore the implementation of the standard as on 1 January 2014 had no impact on Shareholder's equity, Net result and/or Other comprehensive income.

IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and Joint Ventures"

IFRS 11 "Joint Arrangements" and the related amendments to IAS 28 "Investments in Associates and Joint Ventures" eliminated the proportionate consolidation method for joint ventures that was applied by NN Leven. Under the new requirements, all joint ventures are reported using the equity method of accounting (similar to the accounting that is already applied for investments in associates). The implementation of IFRS 11 on 1 January 2014 did not have an impact on Shareholder's equity, Net result and/or Other comprehensive income.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

The impact of the application of IFRS 11 "Joint Arrangements" was implemented as of 1 January 2014 and is summarised as follows:

Impact on the Consolidated balance sheet

As at 31 December	2013	2012
Investments in associates and joint ventures	42,887	44,290
Real estate investments	-42,887	-44,290
Impact on shareholder's equity	**0**	**0**

The other changes in IFRS listed above did not change NN Leven's accounting policies.

Upcoming changes after 2014

Upcoming changes in IFRS-EU after 2014 for NN Leven mainly relate to IFRS 9 "Financial Instruments".

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued by the IASB in July 2014. The new requirements become effective as of 2018, subject to endorsement by the EU. IFRS 9 replaces most of the current IAS 39 "Financial Instruments: Recognition and Measurement", and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on both the entity's business model and the instrument's contractual cash flow characteristics. These may result in financial assets being recognised at amortised cost, at fair value through other comprehensive income (equity) or at fair value through profit or loss. In many instances, the classification and measurement under IFRS 9 will be similar to IAS 39, although certain differences will arise. The classification of financial liabilities remains unchanged.

Impairment

The recognition and measurement of impairment under IFRS 9 is intended to be more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). Initially, a provision is required for expected credit losses resulting from default events that are expected within the next 12 months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial instrument.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify general hedge accounting.

NN Leven is currently assessing the impact of the new requirements that may become effective as of 2018. The implementation of IFRS 9, if and when endorsed by the EU, may have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

Other

In addition, IFRS 15 "Revenue from Contracts with Customers" becomes effective as of 2017, subject to endorsement by the EU. IFRS 15 provides more specific guidance on recognising revenue other than insurance contracts and financial instruments. NN Leven is currently assessing whether there is an impact.

Critical accounting policies

NN Leven has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance provisions, deferred acquisition costs the determination of the fair value of real estate and financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the Consolidated annual accounts and the information below.

Insurance provisions and deferred acquisition costs (DAC)

The determination of insurance provisions and DAC is an inherently uncertain process, involving assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour and assumptions concerning mortality and morbidity trends. Specifically assumptions related to these items that could have a significant impact on financial results include interest rates, mortality, morbidity, investment yields on equity and real estate and foreign currency exchange rates.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Insurance provisions also include the impact of minimum guarantees which are contained within certain products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions about these factors could have a significant effect on insurance provisions and underwriting expenditure.

The adequacy of insurance provisions, net of DAC, is evaluated regularly. The test involves comparing the established insurance provision with current best estimate assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions in this test could lead to a different outcome.

The use of different assumptions could have a significant effect on insurance provisions, DAC and underwriting expenditure. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

Fair value of real estate

Real estate investments are reported at fair value. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. The fair value is established using valuation methods such as comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

Market conditions in recent years have led to a reduced level of real estate transactions. Consequently, the fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value. As volumes of actual transactions have been lower in recent years, more emphasis has been placed on discounted cash flow analysis and capitalisation of income method. Furthermore the use of different assumptions and techniques could produce significantly different valuations.

Reference is made to Note 30 “Fair value of non-financial assets” for more disclosure on the fair value at the balance sheet date of real estate investments.

Fair value of financial assets and liabilities

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

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

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account. All valuation techniques used are subject to internal review and approval.

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

Reference is made to Note 29 “Fair value of financial assets and liabilities” for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

Impairments are especially relevant with regard to Available-for-sale debt and equity securities.

All debt and equity securities (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

"Significant" and "prolonged" are interpreted on a case-by-case basis for specific equity securities. Generally 25% and six months are used as triggers. Upon impairment of Available-for-sale debt and equity securities the full difference between the (acquisition) cost and fair value is removed from equity and recognised in Net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event, after the impairment. Impairments on equity securities cannot be reversed.

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

General accounting policies

Consolidation

The Consolidated annual accounts of NN Leven comprise the accounts of all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

Control exists if NN Leven is exposed to variable returns and having the ability to affect those returns through power over the investee.

A list of principal subsidiaries is included in Note 40 "Principal subsidiaries".

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether NN Leven controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both NN Leven's financial interests for own risk and its role as investment manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the "power") and assume all risks and benefits on these investments (i.e. the policyholder assumes the variable returns).

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in Net result.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with NN Leven policies. In general, the reporting dates of subsidiaries are the same as the reporting date of NN Leven.

Parcom Capital B.V. consolidation method

Parcom Capital B.V. holds various majority interests in private equity investments of NN Leven. In 2009 NN Leven and Parcom Capital B.V. contractually relinquished and transferred control over these interests to Parcom Capital Management B.V., which company is not controlled by NN Leven. As a result these interests do not need to be consolidated in the financial statements of NN Leven and are recognised under "financial assets designated as at fair value through profit or loss".

Foreign currency translation

Functional and presentation currency

Items included in the annual accounts of each of NN Leven's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated annual accounts are presented in euros, which is NN Leven's functional and presentation currency.

Transactions and balances

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

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

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

Recognition and derecognition of financial instruments

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

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

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

Fair value of financial assets and liabilities

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

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques, based on market conditions existing at each balance sheet date.

Reference is made to Note 29 “Fair value of financial assets and liabilities” for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

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

Impairments of financial assets

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

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

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

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

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

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

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 37 "Contingent liabilities and commitments" for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. The manner in which NN Leven manages credit risk and determines credit risk exposures for that purpose is explained in Note 44 "Risk management".

Leases

The leases entered into by NN Leven as a lessee are primarily operating leases. The total payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

Taxation

NN Leven is part of the fiscal unity for corporation tax purposes of NN Group making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group. "Income tax payable" concerns tax payable to NN Group for the most recent quarter. Some of the subsidiaries of REI Investment I B.V. are not part of the fiscal unity of NN Group.

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

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

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates and interests in joint ventures, except where the timing of the reversal of the temporary difference is controlled by NN Leven and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Employee benefits

Defined contribution pension plans

For defined contribution plans NN Leven pays contributions to the NN CDC Pensioenfonds on a contractual basis. NN Leven has no further payment obligations once the contributions have been paid. The contributions are recognised in the line staff expenses in the profit and loss account when they are due. Prepaid contributions are recognised as an asset to the extent a cash refund or a reduction in the future payments is available.

Besides the defined contribution plan for staff included in the NN CDC Pensioenfonds, Parcom Capital B.V. has also entered into pension schemes with its staff whereby the pension is based on amounts paid in by group companies.

For defined contribution plans, Parcom Capital B.V. pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Parcom Capital B.V. has no further payment obligations once the contributions have been paid. The contributions are recognised in the line staff expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Reorganisation provisions

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Share-based payments
Share-based remuneration takes the form of options rights on ING Groep shares and awards on NN Group shares. NN Group recognises a corresponding increase for equity-settled, share-based payment transactions. A liability is recognised, at fair value, for share-based remuneration that is settled in cash. NN Group recharges the costs, related to these transactions, to NN Leven via the current-account balance. NN Leven recognises the recharged costs as staff costs. The fair value of share-based remuneration settled in shares, is measured at the grant date. The fair value of share-based remuneration settled in cash, is remeasured every reporting date.

Interest income and expenses
Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, NN Leven estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the "clean fair value" are included in Valuation results on non-trading derivatives.

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

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including current account balances with ING Groep companies. Investments qualify as a cash equivalent if they are readily convertible into a known amount of cash and are not subject to a significant risk of changes in value.

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

Parent company profit and loss account
The parent company profit and loss account is drawn up in accordance with sector 402, Book 2 of the Dutch Civil Code.

Accounting policies for specific items
Financial assets and liabilities at fair value through profit or loss (note 3 and 15)
A financial asset is classified as at fair value through profit or loss if it is acquired principally for the purpose of selling in the short-term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

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

Investments for risk of policyholders
Investments for risk of policyholders are investments against insurance liabilities for which all changes in the fair value of invested assets are offset by similar changes in insurance liabilities. Investments for risk of policyholders are recognised at fair value; changes in fair value are recognised in the profit and loss account.

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

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative unless the embedded derivative meets the definition of an insurance contract. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Leven first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

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

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

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

Net investment hedges
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in Other comprehensive income (equity) and the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Gains and losses in equity are included in the profit and loss account when the foreign operation is disposed.

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

Available-for-sale investments (note 4)
Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Investment income in the profit and loss account. Dividend income from equity instruments classified as available-for-sale is recognised in Investment income in the profit and loss account when the dividend has been declared.

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

Loans (note 5)
Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from Loans is recognised in Investment income in the profit and loss account using the effective interest method.

Associates and joint ventures (note 6)
Associates are all entities over which NN Leven has significant influence but not control. Significant influence generally results from a shareholding above 20% of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

- representation on the board of directors;
- participation in the policy making process; and
- interchange of managerial personnel.

Joint ventures are all entities in which NN Leven has joint control.

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

Notes to the Consolidated annual accounts of NN Leven – continued

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

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

For interests in investment vehicles the existence of significant influence is determined taking into account both NN Leven's financial interests for own risk and its role as investment manager.

Real estate investments (note 7)

Real estate investments are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sales proceeds and carrying value is recognised in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Market transactions and disposals made by NN Leven are monitored as part of the validation procedures to test the valuations. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value is based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent-free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment. For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

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

Equipment

Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over its estimated useful life, which is generally as follows: for data processing equipment two to five years, and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated. The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account in Other income.

Intangible assets (note 8)

Intangible assets consists of computer software that has been purchased or generated internally for own use and is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed three years. Amortisation is included in Other operating expenses.

Intangible assets are reviewed for impairments at least annually, and more frequently if events indicate that impairments may have occurred. They are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Deferred acquisition costs (note 9)

Deferred acquisition costs (DAC) represent costs of acquiring insurance and investment contracts that are deferred and amortised. The deferred costs, all of which vary with (and are primarily related to) the production of new and renewal of business, consist principally of commissions, certain underwriting and contract issuance expenses, and certain agency expenses.

Notes to the Consolidated annual accounts of NN Leven – continued

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For certain life insurance contracts DAC is amortised over a fixed period of time. For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised.

DAC is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the provision for life insurance liabilities. The test for recoverability is described in the section "Insurance and investment contracts, reinsurance contracts".

For certain products DAC is adjusted for the impact of unrealised results on allocated investments through equity.

Subordinated debt, Other borrowed funds (Note 12, 13)

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

If NN Leven purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in the profit and loss account.

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

Insurance and investment contracts, reinsurance contracts (note 14)

Provisions for liabilities under insurance contracts are established in accordance with IFRS 4 "Insurance Contracts". Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2008, NN Leven decided to adopt IFRS as was already applied by its parent company as of 2005. For the recognition and measurement of the provisions for liabilities under insurance contracts this included a continuation of the accounting standards generally accepted in the Netherlands (Dutch GAAP) as of 2005. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

Insurance contracts

Insurance policies which bear significant insurance risk and/or contain discretionary participation features are presented as insurance contracts. Provisions for liabilities under insurance contracts represent estimates of future payouts that will be required for insurance claims, including expenses relating to such claims. In addition, for certain specific products or components thereof, NN Leven applies the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market consistent interest rates and other current estimates and assumptions. Unless indicated otherwise below changes in the insurance provisions are recognised in the profit and loss account.

Provision for life insurance

The Provision for life insurance is generally calculated on the basis of a prudent prospective actuarial method.

Insurance provisions on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions for insurance provisions on traditional life insurance contracts, including traditional whole-life and term-life insurance contracts, are based on best estimate assumptions including margins for adverse deviations. Generally the assumptions are set initially at the policy issue date and remain constant throughout the life of the policy.

Insurance provisions for universal life, variable life contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders. The insurance provisions include the impact of these minimum guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

The as yet unamortised interest rate rebates on periodic and single premium contracts are deducted from the Provision for life insurance. Interest rate rebates granted during the year are amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

Deferred profit sharing

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Provision for life insurance for risk of policyholders

For investment contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the related investments.

Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contracts are accounted for in the same way as the original contracts for which the reinsurance was concluded. If the reinsurers are unable to meet their obligations, NN Leven remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectable. Both reinsurance premiums and reinsurance recoveries are included in Underwriting expenditure.

Adequacy test

The adequacy of the provisions for insurance, net of unamortised interest rate rebates and DAC is evaluated regularly. The test involves comparing the established insurance provisions with current best estimate reserve including a risk margin. The best estimate reserve makes assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. Three key assumptions impacting the best estimate reserve are future mortality trends, expenses and future reinvestment rates. The best estimate assumption for mortality takes into account both data from the CBS mortality tables for the Dutch population and data from the insured portfolio of NN Leven. The projected expenses take into account normalised maintenance expenses (unit costs per policy) and an add-on for incidental expenses. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and estimated future reinvestment rates in relation to maturing assets and anticipated new premiums.

If the net insurance liabilities are not adequate using a prudent (90%) confidence level the shortfall is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be adequate at above the 90% confidence level, no reduction in the net insurance liabilities is recognised.

Investment contracts

Insurance policies without discretionary participation features which do not bear significant insurance risk are presented as Investment contracts. Provisions for liabilities under investment contracts are determined either at amortised cost, using the effective interest method (including certain initial acquisition expenses), or at fair value.

Gross premium income (note 17)

Premiums from life insurance policies are recognised as income when due from the policyholder. Receipts under investment contracts are not recognised as gross premium income, instead deposit accounting is applied.

Net fee and commission income (note 19)

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

2 Cash and cash equivalents

Cash and cash equivalents

	2014	2013
Cash and bank balances	87,955	91,131
Short-term deposits	5,413	28,196
Cash and cash equivalents	**93,368**	**119,327**

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2014	2013
Trading assets	591,381	723,327
Investments for risk of policyholders	19,265,559	16,398,342
Non-trading derivatives	5,356,174	1,758,287
Designated as at fair value through profit or loss	84,605	74,490
Financial assets at fair value through profit or loss	**25,297,719**	**18,954,446**

Trading assets includes EUR 589,630 (2013: EUR 722,853) private equity investments at fair value through profit or loss.

Investments for risk of policyholders

	2014	2013
Equity securities	19,265,559	16,301,338
Debt securities		97,004
Investments for risk of policyholders	**19,265,559**	**16,398,342**

Investments in investment funds (with underlying investments in debt and equity securities, real estate and derivatives) are included under equity securities.

Non-trading derivatives

	2014	2013
Derivatives used in:		
– cash flow hedges	3,557,125	1,389,993
– hedges of net investments in foreign operations	235	888
Other non-trading derivatives	1,798,814	367,406
Non-trading derivatives	**5,356,174**	**1,758,287**

Other non-trading derivatives mainly consists of interest rate swaps for which no hedge accounting is applied.

Designated as at fair value through profit or loss

	2014	2013
Equity securities	73,943	26,063
Debt securities	5,195	41,793
Other	5,467	6,634
Designated as at fair value through profit or loss	**84,605**	**74,490**

4 Available-for-sale investments

Available-for-sale investments

	2014	2013
Equity securities	5,417,209	4,776,994
Debt securities	39,905,631	31,236,703
Available-for-sale investments	**45,322,840**	**36,013,697**

The cost price of the equity securities amounts to EUR 4,539,934 (2013: EUR 4,051,831). The cost price of the debt securities amounts to EUR 30,276,088 (2013: EUR 28,559,287).

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2014	2013	2014	2013	2014	2013
Available-for-sale investments – Opening balance	4,776,994	4,364,828	31,236,703	35,292,163	36,013,697	39,656,991
Additions	1,313,354	660,542	2,671,783	2,681,517	3,985,137	3,342,059
Amortisation			-27,065	-57,714	-27,065	-57,714
Transfers and reclassifications	-307,834				-307,834	
Changes in unrealised revaluations	148,960	211,296	6,955,569	-2,400,724	7,104,529	-2,189,428
Impairments	-136,218	-162,174			-136,218	-162,174
Disposals and redemptions	-393,562	-290,347	-1,007,587	-4,178,573	-1,401,149	-4,468,920
Exchange rate differences	17,942	-1,318	76,228	-99,966	94,170	-101,284
Other changes	-2,427	-5,833			-2,427	-5,833
Available-for-sale investments – Closing balance	**5,417,209**	**4,776,994**	**39,905,631**	**31,236,703**	**45,322,840**	**36,013,697**

Transfers and reclassifications concerns transfers of investments in real estate funds from Available-for-sale investments to Associates and joint ventures.

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

Total exposure to debt securities

	2014	2013
Available-for-sale investments	39,905,631	31,236,703
Loans	4,821,365	6,180,604
Available-for-sale investments and Loans	**44,726,996**	**37,417,307**
Investments for risk of policyholders		97,004
Designated as at fair value through profit or loss	5,195	41,793
Financial assets at fair value through profit or loss	**5,195**	**138,797**
Debt securities	**44,732,191**	**37,556,104**

NN Leven's total exposure to debt securities included in Available-for-sale investments and Loans of EUR 44,726,996 (2013: EUR 37,417,307) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2014	2013	2014	2013	2014	2013
Government bonds	34,483,448	27,049,831			34,483,448	27,049,831
Corporate bonds	3,191,410	2,442,400			3,191,410	2,442,400
Financial institution bonds	2,230,773	1,744,472			2,230,773	1,744,472
ABS			4,821,365	6,180,604	4,821,365	6,180,604
Debt securities – Available-for-sale investments and Loans	**39,905,631**	**31,236,703**	**4,821,365**	**6,180,604**	**44,726,996**	**37,417,307**

Available-for-sale equity securities

	2014	2013
Listed	3,029,323	2,140,530
Unlisted	2,387,886	2,636,464
Available-for-sale equity securities	**5,417,209**	**4,776,994**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Reclassifications to Loans (2009)

As per reclassification date	Q2 2009
Fair value	5,632,835
Range of effective interest rates (weighted average)	1.4% - 24.8%
Expected recoverable cash flows	6,885,234
Unrealised fair value losses in shareholder's equity (before tax)	-937,688
Recognised fair value gains (losses) in shareholder's equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	98,060
Recognised fair value gains (losses) in shareholder's equity (before tax) in the year prior to reclassification	-1,035,748
Impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil
Impairment (before tax) in the year prior to reclassification	nil

Reclassifications to Loans for the years after reclassification

For the years after reclassification	2014	2013	2012	2011	2010	2009
Carrying value	783,194	915,989	1,699,245	2,980,617	4,354,859	5,409,131
Fair value	948,996	1,062,780	1,658,131	2,808,321	4,481,010	5,722,464
Unrealised fair value gains/losses in Shareholder's equity (before tax)	-202,827	-238,319	-180,335	-297,831	-477,500	-712,637
Effect on shareholder's equity (before tax) if reclassification had not been made	165,802	146,791	-41,114	-172,296	126,151	313,333
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (mainly interest income)	n.a.	n.a.	n.a.	n.a.	n.a.	107,919
Effect on result (before tax) for the year (interest income and sales results)	3,756	-21,969	51,401	86,431	79,919	n.a.
Impairments (before tax)	nil	nil	nil	nil	nil	nil
Provision for credit losses (before tax)	nil	nil	nil	nil	nil	nil

Reclassifications out of Available-for-sale investments to Loans are allowed under IFRS-EU as of the third quarter of 2008. In the second quarter of 2009 NN Leven reclassified certain financial assets from Available-for-sale investments to Loans. NN Leven identified assets, eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table above provides information on this reclassification made in the second quarter of 2009. Information is provided for this reclassification as at the date of reclassification and as at the end of the subsequent reporting periods. This information is disclosed under IFRS-EU for as long as the reclassified assets continue to be recognised in the balance sheet.

5 Loans

Loans

	2014	2013
Loans secured by mortgages	9,079,398	8,299,301
Unsecured loans	3,286,150	1,999,708
Asset-backed securities	4,821,365	6,180,604
Deposits	200,854	187,480
Policy loans	27,723	33,093
Other	99,871	127,024
Loans – before Loan loss provisions	**17,515,361**	**16,827,210**
Loan loss provisions	-43,690	-62,157
Loans	**17,471,671**	**16,765,053**

Notes to the Consolidated annual accounts of NN Leven – continued

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Loan loss provisions

	2014	2013
Loan loss provisions – Opening balance	62,157	67,968
Write-offs	-26,214	-7,860
Recoveries	582	619
Increase in loan loss provisions	7,165	14,644
Other changes		-13,214
Loan loss provisions – Closing balance	**43,690**	**62,157**

6 Associates and joint ventures

Associates and joint ventures (2014)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Master Fund I C.V.	28	255,480	1,202,697	298,277	111,869	49,974
CBRE UK Property Fund LP	27	188,116	785,540	75,134	122,242	18,441
CBRE Retail Property Fund Iberica LP	31	151,159	1,094,911	598,843	215,275	51,670
CBRE Property Fund Central Europe LP	25	107,307	887,879	458,652	66,674	22,979
Allee Center Kft	50	102,808	224,810	18,781	15,758	5,536
Fiumaranuova s.r.l.	50	90,688	202,666	21,291	10,839	3,763
CBRE Retail Property Fund France Belgium C.V.	15	84,868	1,288,619	722,833	147,003	68,849
CBRE European industrial Fund C.V.	22	72,974	503,986	175,274	52,537	22,315
Dolphin Capital B FPCI	40	68,453	175,221	209	5,228	2,579
CBRE French Residential Fund C.V.	42	59,442	211,812	56,400	-14,968	8,905
CBRE Property Fund Central and Eastern Europe FGR	21	51,810	657,158	405,530	49,023	51,354
Other		361,123				
Associates and joint ventures		**1,594,228**				

The above associates are mainly real estate investment funds or vehicles.

Significant influence exists for associates in which the interest held is below 20%, based on the combination of NN Leven's financial interest for own risk and other arrangements, such as participation in the advisory board.

Other represents a large number of associates and joint ventures with an individual balance sheet value of less than EUR 50 million.

The values presented in the table above could differ from the values presented in the individual annual accounts of the associates, due to the fact that the individual values have been brought in line with NN Leven's accounting principles.

The reporting dates of all significant associates and joint ventures are consistent with the reporting date of NN Leven.

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

Associates and joint ventures (2013)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expense
CBRE UK Property Fund LP	29	146,045	566,594	55,341	78,955	27,734
CBRE Retail Property Fund Iberica LP	29	117,675	1,321,873	902,231	5	67,250
CBRE Property Fund Central Europe LP	25	100,213	850,535	449,683	45,284	38,534
CBRE Retail Property Fund France Belgium C.V.	15	77,116	1,335,930	821,825	71,200	78,378
CBRE French Residential Fund C.V.	42	75,900	239,822	57,720	11,952	9,928
CBRE Property Fund Central and Eastern Europe FGR	21	51,436	658,613	589,323	47,265	55,470
Other		323,583				
Associates and joint ventures		**891,968**				

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Associates and joint ventures

	2014	2013
Associates – Opening balance	891,968	944,664
Additions	493,437	47,988
Disposals	-176,228	-65,333
Transfers to and from Available-for-sale investments	307,834	
Revaluations	7,168	20,368
Share of result	129,416	-28,065
Dividend received	-39,884	-18,167
Exchange rate differences	14,407	-4,471
Other changes	-33,890	-5,016
Associates and joint ventures – Closing balance	**1,594,228**	**891,968**

7 Real estate investments

Real estate investments

	2014	2013
Real estate investments – Opening balance	777,068	822,417
Additions	397,888	202,591
Transfers to and from Other assets	-1,683	190
Fair value gains/(losses)	-11,523	-18,916
Disposals	-9,830	-229,118
Other changes	2,973	-96
Real estate investments – Closing balance	**1,154,893**	**777,068**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2014 is EUR 80,063 (2013: EUR 64,482).

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments for the year ended 31 December 2014 is EUR 21,632 (2013: EUR 15,855).

Real estate investments by year of most recent appraisal

In percentages	2014	2013
Most recent appraisal in current year	100	100

NN Leven's exposure to real estate is included in the following balance sheet lines:

Total Real estate exposure

	2014	2013
Real estate investments	1,154,893	777,068
Investments – Available-for-sale	1,039,798	1,357,652
Associates and joint ventures	1,448,305	833,910
Equipment		66
Other assets – property obtained from foreclosures	4,174	2,959
Total Real estate exposure	**3,647,170**	**2,971,655**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 4.8 billion (2013: EUR 4.7 billion). Reference is made to Note 44 "Risk management".

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

8 Intangible assets

Intangible assets

	Software	
	2014	2013
Intangible assets – Opening balance	12,058	16,076
Additions	2,855	1,507
Capitalised expenses	3,900	7,198
Amortisation	-13,817	-6,733
Exchange rate differences		-2
Disposals		-5,122
Other changes	1,745	-866
Intangible assets – Closing balance	**6,741**	**12,058**
Gross carrying amount	31,603	58,217
Accumulated amortisation	-24,862	-46,159
Net carrying value	**6,741**	**12,058**

Amortisation of software is included in the profit and loss account in “Other operating expenses”.

9 Deferred acquisition costs

Deferred acquisition costs

	2014	2013
Deferred acquisition costs – Opening balance	331,494	378,090
Capitalised	18,535	21,204
Amortisation and unlocking	-56,198	-65,484
Exchange rate differences	-260	-2,316
Deferred acquisition costs – Closing balance	**293,571**	**331,494**

The capitalisation of deferred acquisitions costs is completely related to the Czech business.

10 Other assets

Other assets

	2014	2013
Insurance and reinsurance receivables	270,762	351,525
Deferred tax assets		134
Property obtained from foreclosures	4,174	2,959
Income tax receivable	4,086	2,383
Accrued interest and rents	1,022,120	955,728
Other accrued assets	3,205	100,220
Other	230,584	765,587
Other assets	**1,534,931**	**2,178,536**

Disclosures in respect of deferred tax assets are provided in Note 28 “Taxation”.

Other contains EUR 50,230 (2013: EUR 704,818) of current accounts with NN Group companies.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Insurance and reinsurance receivables

	2014	2013
Receivables on account of direct insurance from:		
– policyholders	246,079	335,966
– intermediaries	4,466	2,675
Reinsurance receivables	20,217	12,884
Insurance and reinsurance receivables	**270,762**	**351,525**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 12,158 as at 31 December 2014 (2013: EUR 13,136). The allowance is deducted from this receivable.

11 Equity

Total equity

	2014	2013
Share capital	22,689	22,689
Share premium	3,695,769	3,639,723
Revaluation reserve	7,519,606	3,060,836
Currency translation reserve	-84,887	-148,607
Other reserves	2,822,781	2,737,792
Shareholder's equity (parent)	**13,975,958**	**9,312,433**
Minority interests	441,246	443,424
Undated subordinated loan	450,000	
Total equity	**14,867,204**	**9,755,857**

Share capital

			Ordinary shares	
	Shares (in number)		Amount	
	2014	2013	2014	2013
Authorised share capital	22,689,015	22,689,015	113,445	113,445
Unissued share capital	18,151,212	18,151,212	90,756	90,756
Issued share capital	**4,537,803**	**4,537,803**	**22,689**	**22,689**

Ordinary shares

All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the shareholders meeting. The par value of ordinary shares is EUR 5 (whole euros). The authorised ordinary share capital of NN Leven consists of 22,689,015 shares, of which as at 31 December 2014, 4,537,803 shares have been issued and fully paid.

NN Leven and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid–up capital, and legal reserves. Furthermore there are restrictions imposed by prudential regulations for insurance companies. Reference is made to Note 45 "Capital management".

The Revaluation reserve, Share of associates reserve (included in Other reserves) and Currency translation reserve cannot be freely distributed. For information on the Share of associates reserve reference is made to the Parent company annual accounts.

Share premium

	2014	2013
Share premium – Opening balance	3,639,723	3,039,723
Capital contribution		600,000
Other changes[1]	56,046	
Share premium – Closing balance	**3,695,769**	**3,639,723**

1 Other changes relates to the reclassification of share premium from the other reserves to the share premium reserve for a former subsidiary.

In 2013, the capital contribution of EUR 600 million was received from Nationale-Nederlanden Nederland B.V.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Revaluation reserve (2014)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – Opening balance	340,438	2,720,398	3,060,836
Unrealised revaluations	6,266,788		6,266,788
Realised gains/losses transferred to the profit and loss account	-15,307		-15,307
Change in cash flow hedge reserve		1,675,825	1,675,825
Transfer to/from insurance liabilities	-3,468,536		-3,468,536
Revaluation reserve – Closing balance	**3,123,383**	**4,396,223**	**7,519,606**

Revaluation reserve (2013)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – Opening balance	1,033,555	3,486,090	4,519,645
Unrealised revaluations	-1,988,360		-1,988,360
Realised gains/losses transferred to the profit and loss account	-82,219		-82,219
Change in cash flow hedge reserve		-765,692	-765,692
Transfer to/from insurance liabilities	1,377,462		1,377,462
Revaluation reserve – Closing balance	**340,438**	**2,720,398**	**3,060,836**

Currency translation reserve

	2014	2013
Currency translation reserve – Opening balance	-148,607	-154,942
Exchange rate differences	63,720	6,335
Currency translation reserve – Closing balance	**-84,887**	**-148,607**

Other reserves (2014)

	Retained earnings	Share of associates reserve	Total
Other reserves – Opening balance	2,705,445	32,347	2,737,792
Net result	150,652		150,652
Transfer to/from Share of associates reserve	13,642	-13,642	
Dividend paid	-8,986		-8,986
Other changes[1]	-56,677		-56,677
Other reserves – Closing balance	**2,804,076**	**18,705**	**2,822,781**

1 Other changes mainly relates to the reclassification of share premium from the other reserves to the share premium reserve for a former subsidiary.

Other reserves (2013)

	Retained earnings	Share of associates reserve	Total
Other reserves – Opening balance	2,501,571	15,072	2,516,643
Net result	237,115		237,115
Transfer to/from Share of associates reserve	-17,275	17,275	
Other changes	-15,966		-15,966
Other reserves – Closing balance	**2,705,445**	**32,347**	**2,737,792**

Undated subordinated loan

Interest rate	Year of issue	Due date	Notional amount		Balance sheet value 2014	Balance sheet value 2013
4.520%	2014	Perpetual	EUR	450,000	450,000	

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

On 30 May 2014, NN Leven issued a EUR 450 million perpetual subordinated loan to NN Group. The loan is callable after 5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.520% per annum for the first 10 years and will be floating thereafter. As this loan is undated and includes optional deferral of interest at the discretion of NN Leven, this is classified under IFRS-EU as equity. Coupon payments are distributed out of equity if and when paid or contractually due.

12 Subordinated debt

Subordinated debt

Interest rate	Year of issue	Due date	First call date	Notional amount 2014	Notional amount 2013	Balance sheet value 2014	Balance sheet value 2013
5.600%	2014	10 February 2044	10 February 2024	600,000		600,000	

On 10 February 2014, NN Leven issued a EUR 600 million subordinated loan to NN Group. This loan is callable after 10 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 5.600% per annum for the first 10 years and will be floating thereafter.

13 Other borrowed funds

Other borrowed funds

	2014	2013
Other borrowed funds – Opening balance	1,453,370	440,746
Additions	665,531	1,040,794
Disposals	-1,371,346	-28,170
Other borrowed funds – Closing balance	**747,555**	**1,453,370**

In 2014 NN Leven entered into a short-term borrowing facility with Nationale-Nederlanden Interfinance B.V. This borrowing facility has a maximum amount of EUR 700 million of which EUR 450 million was drawn as per 31 December 2014. The cash was used to fund investment transactions in December 2014 and was paid back in January 2015.

The addition in 2013 mainly concerns EUR 1,030,259 cash received for a securities lending programme. The cash was used to fund the mortgage transactions in December 2013 and was paid back in January 2014.

For the maturity of the Other borrowed funds reference is made to Note 33 “Liabilities by maturity”.

14 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Provisions net of reinsurance and investment contracts		Reinsurance contracts		Insurance and investment contracts	
	2014	2013	2014	2013	2014	2013
Provisions for non-participating life policy liabilities	3,893,945	3,834,986	60,114	61,538	3,954,059	3,896,524
Provisions for participating life policy liabilities	39,646,300	37,116,372	654,857	677,195	40,301,157	37,793,567
Provisions for (deferred) profit sharing and rebates	6,657,469	3,215,569			6,657,469	3,215,569
Life insurance provisions excluding provisions for risk of policyholders	**50,197,714**	**44,166,927**	**714,971**	**738,733**	**50,912,685**	**44,905,660**
Provisions for life insurance for risk of policyholders	19,674,957	16,865,535	435,642	445,672	20,110,599	17,311,207
Life insurance provisions	**69,872,671**	**61,032,462**	**1,150,613**	**1,184,405**	**71,023,284**	**62,216,867**
Investment contracts for risk of company	743,724	773,701			743,724	773,701
Investment contracts for risk of policyholders	50,632	60,314			50,632	60,314
Total provisions for investment contracts	**794,356**	**834,015**			**794,356**	**834,015**
Insurance and investment contracts, reinsurance contracts	**70,667,027**	**61,866,477**	**1,150,613**	**1,184,405**	**71,817,640**	**63,050,882**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

The "Provisions for insurance and investment contracts" is presented gross in the balance sheet as "Insurance and investment contracts". The related reinsurance is presented as "Reinsurance contracts" under Assets in the balance sheet.

NN Leven regularly tests the adequacy of the reserves. As at 31 December 2014 the reserves were increased with EUR 133 million to EUR 71,023 million to maintain the reserve adequacy at the 90th percentile.

Life insurance provisions

	Net life insurance provisions[1]		Net provisions for risk of policyholders[2]		Reinsurance contracts		Life insurance provisions	
	2014	2013	2014	2013	2014	2013	2014	2013
Life insurance provisions – Opening balance	44,166,927	44,902,228	16,865,535	18,906,338	1,184,405	1,311,534	62,216,867	65,120,100
Current year provisions	1,942,400	1,789,620	805,651	967,901	2,408	1,895	2,750,459	2,759,416
Change in deferred profit sharing liability	3,468,536	-1,377,462					3,468,536	-1,377,462
Prior year provisions:								
– benefit payments to policyholders	-3,503,213	-3,563,867	-1,125,392	-1,228,490	-4,048	-3,835	-4,632,653	-4,796,192
– interest accrual and changes in fair value of liabilities	2,085,494	1,664,814			864	319	2,086,358	1,665,133
– valuation changes for risk of policyholders			3,744,784	598,540			3,744,784	598,540
– effect of changes in other assumptions		-23						-23
Exchange rate differences	-939	-79,420	-4,713	-36,217	154	-19	-5,498	-115,656
Other changes[3]	2,038,509	831,037	-610,908	-2,342,537	-33,170	-125,489	1,394,431	-1,636,989
Life insurance provisions – Closing balance	**50,197,714**	**44,166,927**	**19,674,957**	**16,865,535**	**1,150,613**	**1,184,405**	**71,023,284**	**62,216,867**

1 Net of reinsurance and provisions for risk of policyholders
2 Net of reinsurance
3 Other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts, and the transfer of certain insurance contracts. Furthermore, Other changes includes EUR 1.3 billion related to a change in presentation of certain insurance liabilities for risk of policyholders that were previously presented net under Investments for risk of policyholders.

Where discounting is used in the calculation of life insurance provision, the weighted average rate is within the range of 2.3% to 4% (2013: 2.5% to 4%).

The reinsurance mainly concerns the reinsurance of the insurance operations of the branch in the Czech Republic.

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

As at 31 December 2014, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounts to EUR 1,170,830 (2013: EUR 1,197,289). There was no provision for uncollectable reinsurance.

Investment contracts

	2014	2013
Investment contracts – Opening balance	834,015	935,223
Current year liabilities		-13
Prior year provisions:		
– payments to contract holders	-39,790	-94,998
– interest accrual	790	1,629
Exchange rate differences	-659	-7,826
Investment contracts – Closing balance	**794,356**	**834,015**

Provisions for (deferred) profit sharing and rebates

	2014	2013
Profit sharing for policyholders	241,361	266,973
Deferred profit sharing liability (individual)	6,416,108	2,948,596
Provisions for (deferred) profit sharing and rebates	**6,657,469**	**3,215,569**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Provisions for (deferred) profit sharing and rebates

	2014	2013
Profit sharing for policyholders		
Provision for (deferred) profit sharing and rebates – Opening balance	266,973	263,112
Profit sharing allocated to policyholders	-63,297	-57,277
Profit sharing dependent on business results	36,441	54,992
Other changes	1,244	6,146
Profit sharing for policyholders – Closing balance	**241,361**	**266,973**
Deferred profit sharing liability (individual)		
Deferred profit sharing liability (individual) - Opening balance	2,948,596	4,333,853
Allocation of share in unrealised revaluations	3,468,536	-1,377,462
Other changes	-1,024	-7,795
Deferred profit sharing liability (individual) - Closing balance	**6,416,108**	**2,948,596**

15 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes only non-trading derivatives.

Non-trading derivatives

	2014	2013
Derivatives used in:		
– cash flow hedges	107,947	283,124
– hedges of net investments in foreign operations	12,986	3,724
Other non-trading derivatives	1,494,689	325,366
Non-trading derivatives	**1,615,622**	**612,214**

Other non-trading derivatives mainly consists of interest rate swaps for which no hedge accounting is applied.

16 Other liabilities

Other liabilities

	2014	2013
Deferred tax liabilities	2,083,885	659,234
Income tax payable	53,086	52,401
Staff-related liabilities	95	7,248
Other taxation and social security contributions	56,847	97,436
Deposits from reinsurers	629,546	639,944
Accrued interest	144,040	46,393
Costs payable	16,859	31,967
Amounts payable to brokers	2,313	2,591
Amounts payable to policyholders	485,734	418,921
Reorganisation provisions	26,585	62,424
Other provisions	10,596	8,493
Amounts to be settled	237,709	167,379
Other	525,485	161,537
Other liabilities	**4,272,780**	**2,355,968**

Disclosures in respect of Deferred tax liabilities are provided in Note 28 "Taxation".

Other contains EUR 415,006 with regard to a prepayment received for an insurance contract starting in 2015.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Reorganisation provisions

	2014	2013
Reorganisation provisions – Opening balance	62,424	134,265
Additions	10,260	1,833
Releases	-12,524	-12,444
Charges	-32,143	-51,896
Exchange rate differences		-7
Other changes	-1,432	-9,327
Reorganisation provisions – Closing balance	**26,585**	**62,424**

In 2012 and 2013 reorganisation provisions were recognised for the insurance operations in the Netherlands following the initiative to accelerate the transformation programme in preparation for the stand-alone future of NN Group. In response to changing customer preferences and market dynamics, NN Leven undertook actions to regain customer trust, diversify distribution channels and increase efficiency. In 2014 EUR 10,260 was added to the reorganisation provision, due to additional initiatives announced during 2014.

In 2014 EUR 32,143 was charged to the provision for the cost of workforce reductions during 2014. The remaining provision at the balance sheet date represents the best estimate of the expected future redundancy costs and is expected to be sufficient to cover the remaining costs of the restructuring programme.

Other provisions

	Litigation		Other		Total	
	2014	2013	2014	2013	2014	2013
Opening balance	469	411	8,024	15,210	8,493	15,621
Additions				75		75
Releases	-254			-235	-254	-235
Charges			-5,347	-4,805	-5,347	-4,805
Exchange rate differences	-3	-16		-4	-3	-20
Other changes	-26	74	7,733	-2,217	7,707	-2,143
Closing balance	**186**	**469**	**10,410**	**8,024**	**10,596**	**8,493**

17 Gross premium income

Effect of reinsurance on premiums written

	Gross		Reinsurance		Net of reinsurance	
	2014	2013	2014	2013	2014	2013
Insurance for risk of insurer	2,082,736	2,092,513	92,981	102,028	1,989,755	1,990,485
Insurance for risk of policyholders	1,005,597	1,152,789	95,872	108,406	909,725	1,044,383
Total	**3,088,333**	**3,245,302**	**188,853**	**210,434**	**2,899,480**	**3,034,868**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Gross premium income (2014)

	Insurance for risk of insurer			Insurance for risk of policyholders		
	Gross	Reinsurance	Net of reinsurance	Gross	Reinsurance	Net of reinsurance
Regular premiums						
Individual						
– without profit sharing	220,988	36,361	184,627	233,004	80,575	152,429
– with profit sharing	580,354	56,060	524,294			
	801,342	**92,421**	**708,921**	**233,004**	**80,575**	**152,429**
Group						
– without profit sharing	3,045	8	3,037	210,441		210,441
– with profit sharing	459,414	528	458,886	294,783	245	294,538
	462,459	**536**	**461,923**	**505,224**	**245**	**504,979**
Total regular premiums	**1,263,801**	**92,957**	**1,170,844**	**738,228**	**80,820**	**657,408**
Single premiums						
Individual						
– without profit sharing	110,059		110,059	15,899	15,052	847
– with profit sharing	401,942	24	401,918			
	512,001	**24**	**511,977**	**15,899**	**15,052**	**847**
Group						
– without profit sharing	5,183		5,183	49,414		49,414
– with profit sharing	301,751		301,751	202,056		202,056
	306,934		**306,934**	**251,470**		**251,470**
Total Single premiums	**818,935**	**24**	**818,911**	**267,369**	**15,052**	**252,317**
Total life insurance premiums	**2,082,736**	**92,981**	**1,989,755**	**1,005,597**	**95,872**	**909,725**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Gross premium income (2013)

	Insurance for risk of insurer			Insurance for risk of policyholders		
	Gross	Reinsurance	Net of reinsurance	Gross	Reinsurance	Net of reinsurance
Regular premiums						
Individual						
– without profit sharing	222,549	34,003	188,546	279,078	98,205	180,873
– with profit sharing	653,498	66,982	586,516	2,990	699	2,291
	876,047	**100,985**	**775,062**	**282,068**	**98,904**	**183,164**
Group						
– without profit sharing	32	26	6	242,265		242,265
– with profit sharing	474,291	572	473,719	431,285	-9	431,294
	474,323	**598**	**473,725**	**673,550**	**-9**	**673,559**
Total regular premiums	**1,350,370**	**101,583**	**1,248,787**	**955,618**	**98,895**	**856,723**
Single premiums						
Individual						
– without profit sharing	123,404	89	123,315	10,528	9,511	1,017
– with profit sharing	459,621	356	459,265			
	583,025	**445**	**582,580**	**10,528**	**9,511**	**1,017**
Group						
– without profit sharing	1,135		1,135	37,741		37,741
– with profit sharing	157,983		157,983	148,902		148,902
	159,118		**159,118**	**186,643**		**186,643**
Total single premiums	**742,143**	**445**	**741,698**	**197,171**	**9,511**	**187,660**
Total life insurance premiums	**2,092,513**	**102,028**	**1,990,485**	**1,152,789**	**108,406**	**1,044,383**

Geographical segmentation of gross premium income

	2014	2013
Netherlands	2,903,696	3,038,769
Other EU member states	184,637	206,533
Total	**3,088,333**	**3,245,302**

See Note 22 “Underwriting expenditure” for disclosure on reinsurance ceded.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

18 Investment income

Investment income

	2014	2013
Interest income from investments in debt securities	1,051,226	1,122,032
Interest income from loans:		
– unsecured loans	171,536	154,891
– mortgage loans	381,049	243,298
– policy loans	1,690	1,994
– other	140,462	29,350
Income from investments in debt securities and loans	**1,745,963**	**1,551,565**
Realised gains/losses on disposal of Available-for-sale debt securities	2,337	34,115
Realised gains/losses of Available-for-sale debt securities	**2,337**	**34,115**
Realised gains/losses on disposal of Available-for-sale equity securities	16,792	103,983
Impairments of Available-for-sale equity securities	-136,218	-162,173
Realised gains/losses and impairments of equity securities	**-119,426**	**-58,190**
Interest income on non-trading derivatives	454,438	335,799
Income from real estate investments	58,431	49,659
Dividend income	150,551	152,948
Change in fair value of real estate investments	-11,527	-18,917
Investment income	**2,280,767**	**2,046,979**

19 Net fee and commission income

Gross fee and commission income

	2014	2013
Asset management fees	23,984	29,247
Insurance brokerage and advisory fees	-2,258	367
Other	-71	4,294
Gross fee and commission income	**21,655**	**33,908**

Fee and commission expenses

	2014	2013
Asset management fees	96,024	77,209
Fee and commission expenses	**96,024**	**77,209**

20 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2014	2013
Change in fair value of derivatives relating to:		
– cash flow hedges (ineffective portion)	-31,780	31,307
– other non-trading derivatives	324,927	-199,061
Net result on non-trading derivatives	**293,147**	**-167,754**
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	3,318	-724
Valuation results on non-trading derivatives	**296,465**	**-168,478**

Included in Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in Underwriting expenditure. Reference is made to Note 22 "Underwriting expenditure".

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Valuation results on non-trading derivatives are reflected in the Consolidated statement of cash flows in the section "Result before tax", in the line item "Adjusted for: other".

21 Foreign currency results and net trading income

Foreign currency results and net trading income

	2014	2013
Foreign currency results	75,150	-23,651
Net trading income	103,254	78,743
Foreign currency results and net trading income	**178,404**	**55,092**

22 Underwriting expenditure

Underwriting expenditure

	2014	2013
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholders	4,928,851	4,451,796
– effect of investment result for risk of policyholders	3,745,529	599,061
Gross underwriting expenditure	**8,674,380**	**5,050,857**
Investment result for risk of policyholders	-3,745,529	-599,061
Reinsurance recoveries	-221,405	-180,163
Underwriting expenditure	**4,707,446**	**4,271,633**

The investment income and valuation results regarding investments for risk of policyholders is EUR 3,745,529 (2013: EUR 599,061). This amount is recognised in Underwriting expenditure. As a result it is shown together with the equal amount of related change in insurance provisions for risk of policyholders.

Underwriting expenditure

	2014	2013
Reinsurance and retrocession premiums	188,853	210,434
Gross benefits	4,419,228	4,502,111
Reinsurance recoveries	-221,405	-180,163
Change in life insurance provisions	230,312	-367,260
Costs of acquiring insurance business	46,631	54,453
Other underwriting expenditure	17,499	21,452
Profit sharing and rebates	26,328	30,606
Underwriting expenditure	**4,707,446**	**4,271,633**

Gross benefits

	2014	2013
Surrenders	990,262	1,006,479
Payments upon maturity	1,479,963	1,522,337
Payments upon death	140,312	158,898
Annuities and other periodic payments	1,781,004	1,789,831
Other	27,687	24,566
Gross benefits	**4,419,228**	**4,502,111**

Costs of acquiring insurance business

	2014	2013
Changes in acquisition costs	33,983	44,092
Brokerage fee	12,628	11,887
Other commissions	20	-1,526
Costs of acquiring insurance business	**46,631**	**54,453**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Profit sharing and rebates

	2014	2013
Distributions on account of interest or underwriting results	-11,792	-26,512
Bonuses added to policies[1]	38,120	57,118
Profit sharing and rebates	**26,328**	**30,606**

1 The Bonuses added to policies consists of NN Leven and RVS Leven policyholders' share in the profit, whereby both profit sharing schemes are being maintained. For more information reference is made to the section "Profit sharing for policyholders".

23 Staff expenses

Staff expenses[1]

	2014	2013
Salaries	123,739	161,672
Pension costs	331,710	23,131
Social security costs	16,911	21,825
Share-based compensation arrangements	363	852
External staff costs	63,154	83,145
Education	2,271	3,497
Other staff costs	4,789	21,442
Staff expenses	**542,937**	**315,564**

1 From June 2013 NN Group and NN Leven used, as a consequence of the restructuring in 2013, a new method of cost allocation. For comparison, the 2013 figures have been restated based on the new method of cost allocation.

Staff of NN Leven are employed by NN Insurance Personeel B.V. (formerly named ING Verzekeringen Personeel B.V.). NN Leven is billed for its staff expenses by NN Insurance Personeel B.V., under a service level agreement. Although these costs are not paid out in the form of salaries, they do have the character of staff expenses and they are therefore recognised as such. A staff provision for holiday entitlement and bonuses is recognised at NN Group. Actual spending will be charged to NN Leven as per the contract with NN Insurance Personeel B.V.

In 2013, the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150 on each employee, subject to Dutch income tax. The tax was charged to NN Leven and did not affect the remuneration of relevant employees. The tax imposed on NN Leven for relevant employees is included in the 2013 amounts in the table above.

For Pension costs reference is made to Note 38 "Pension and other post-employment benefits".

Number of employees

	2014	2013
Netherlands – average number of employees on full-time equivalent basis	1,850	2,067
Rest of Europe – average number of employees on full-time equivalent basis	282	290
Number of employees	**2,132**	**2,357**

Stock option and share plans

ING Groep has granted option rights on ING Groep shares and conditional rights on depositary receipts (share awards) for ING Groep shares to Management Board members and identified staff of NN Leven. The purpose of the option and share schemes, is to attract, retain and motivate senior executives and identified staff.

ING Groep granted three types of share awards, deferred shares, performance shares and upfront shares. The entitlement to the share awards was granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING Groep depositary receipts that would ultimately be granted at the end of a performance period is dependent upon ING Groep's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to Management Board members, as well as identified staff. NN Group has the authority to hold back awarded but unvested shares and a claw back to vested shares.

In 2014, all outstanding share awards on ING Groep shares were converted into awards on NN Group shares. The conversion was performed at an exchange factor such that the fair value of the outstanding awards was unchanged. The outstanding option awards on ING Groep shares which are all fully vested, remained unchanged. As of 2014, new awards are all based on NN Group shares.

Every year, the Management Board of NN Group decides whether the option and share schemes are to be continued and, if so, to what extent.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

In 2010, the ING Groep Management Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2011 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep shares at the date on which the options are granted.

The tables below disclose the option rights outstanding for NN employees (including Management Board members) of NN Insurance Personeel B.V., working for subsidiaries of Nationale-Nederlanden Nederland B.V. and NN Insurance Support Nederland B.V.

Stock option plans

Option rights on ING Groep shares for NN employees

	Options outstanding (in number)		Weighted average exercise price (in euros)	
	2014	2013	2014	2013
Option rights outstanding – Opening balance	3,818,334	4,594,878	18.24	16.90
Exercised or transferred	-126,489	-156,451	6.11	4.27
Transferred	27,993	67,628	14.43	15.39
Forfeited	-37,076	-58,616	20.65	15.05
Expired	-780,035	-629,105	16.79	11.90
Option rights outstanding – Closing balance	**2,902,727**	**3,818,334**	**19.09**	**18.24**

As at 31 December 2014, total options outstanding consists of 1,539,423 options (2013: 2,291,697) relating to equity-settled share-based payment arrangements and 1,363,304 options (2013: 1,526,637) relating to cash-settled, share-based payment arrangements.

The weighted average share price at the date of exercise for options exercised in 2014 is EUR 10.60 (whole euros) (2013: EUR 8.24 (whole euros)).

Exercise price of options rights

Range of exercise price in euros	Outstanding as at 31 December 2014	Weighted average remaining life 2014	Weighted average exercise price 2014	Outstanding as at 31 December 2013	Weighted average remaining life 2013	Weighted average exercise price 2013
0.00 - 5.00	142,763	4.22	2.90	171,868	5.22	2.90
5.00 - 10.00	173,421	5.20	7.38	270,591	6.21	7.37
10.00 - 15.00	28,322	3.71	14.36	497,238	0.46	14.37
15.00 - 20.00	1,378,108	1.58	17.33	1,546,093	2.61	17.31
20.00 - 25.00	534,646	2.22	24.70	604,758	3.22	24.70
25.00 - 30.00	645,467	1.22	25.16	727,786	2.22	25.16
	2,902,727			**3,818,334**		

As at 31 December 2014, the aggregate intrinsic value of options outstanding and exercisable are EUR 1,730 and EUR 1,730 respectively (2013: EUR 1,976 and EUR 1,976).

The fair value of options granted is recognised as an expense in staff expenses and is allocated over the vesting period of the options. The fair value of the option awards have been determined using a Monte Carlo simulation model. This model takes the risk-free interest rate into account (2.02% to 4.62%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90 (whole euros) – EUR 26.05 (whole euros)), the expected volatility of the certificates of ING Groep shares (25% - 84%) and the expected dividend yield (0.94% - 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING Groep's trading system. The implied volatilities in this system are determined by ING Groep's traders and are based on market data implied volatilities, not on historical volatilities.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Share plans

Share awards on ING Groep shares for NN employees

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2014	2013	2014	2013
Opening balance	286,788	573,917	10.64	9.94
Transferred	101,166	988	6.40	7.26
Granted	69,031	70,791	9.77	5.73
Performance effect	88,447	17,698	1.97	12.29
Vested	-364,565	-332,220	10.43	8.20
Forfeited	-47,242	-44,386	7.86	12.65
Converted into share awards on NN Group shares	-133,625		7.26	
Share awards – Closing balance	**0**	**286,788**	**0**	**10.64**

As at 31 December 2013, the 286,788 share awards on ING Groep shares consists of 234,333 share awards relating to equity-settled, share-based payment arrangements and 52,455 share awards relating to cash-settled, share-based payment arrangements.

In July 2014, all outstanding share awards on ING Groep shares were converted into share awards on NN Group shares. The conversion was performed at an exchange factor such that the fair value of the outstanding share awards remained unchanged. As a result, 133,625 share awards on ING Groep shares (with a weighted average grant date fair value of EUR 7.26 (whole euros)) were converted into 70,420 share awards on NN Group shares (with a weighted average grant date fair value of EUR 13.78 (whole euros)).

Share awards on NN Group shares for NN employees

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2014	2013	2014	2013
Opening balance				
Converted from share awards on ING Groep shares	70,420		13.78	
Performance effect	5,127		13.78	
Vested	-602		13.78	
Forfeited	-11,586		13.78	
Share awards – Closing balance	**63,359**		**13.78**	

As at 31 December 2014, the share awards on NN Group shares consists of 63,359 share awards relating to equity-settled, share-based payment arrangements and 0 share awards relating to cash-settled, share-based payment arrangements.

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

As at 31 December 2014, total unrecognised compensation costs related to share awards amounted to EUR 350 (2013: EUR 348) These costs are expected to be recognised over a weighted average period of 1.5 years (2013: 1 year).

Sharesave Plan

In August 2014, NN Group introduced a "Sharesave" plan which is open to all employees. Under the plan, from August 2014 eligible employees can save a fixed monthly amount in euros of between EUR 25 (whole euros) and EUR 250 (whole euros) for a period of three years. At the end of the three-year period, employees will receive their saving together with a gross gain, if at the end of the three-year period the NN Group share price exceeds the initial trading price of NN Group shares on the Amsterdam Stock Exchange on 7 July 2014. The gross gain is limited to a 100% increase in the share price and is paid in cash. If an employee leaves the plan or if the share price is equal to or less than the initial trading price, the amount contributed by the employee is repaid.

The expense recognised in staff expenses by NN Leven for the "Sharesave Plan" amounts to EUR 199.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

24 Interest expenses

Interest expenses

	2014	2013
Interest expenses on non-trading derivatives	218,526	81,431
Other interest expenses	45,006	10,729
Interest expenses	**263,532**	**92,160**

Other interest expenses in 2014 mainly consists of interest on the Subordinated debt.

In 2014, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 1,745,963 and EUR -45,006 respectively (2013: EUR 1,551,565 and EUR -10,729 respectively).

Total net interest income

	Notes	2014	2013
Investment income	18	1,745,963	1,551,565
Interest expenses on non-trading derivatives		-218,526	-81,431
Other interest expenses		-45,006	-10,729
Total net interest income		**1,482,431**	**1,459,405**

25 Other operating expenses

Other operating expenses[1]

	2014	2013
Depreciation of equipment	762	22
Amortisation of software	13,817	3,647
Computer costs	52,765	32,176
Office expenses	31,730	27,754
Travel and accommodation expenses	1,547	772
Advertising and public relations	4,512	388
External advisory fees	24,624	5,528
Additions/(releases) reorganisation provisions	-2,264	-10,452
Other	62,723	71,815
Other operating expenses	**190,216**	**131,650**

1 From June 2013 NN Group and NN Leven used, as a consequence of the restructuring in 2013, a new method of cost allocation. For comparison, the 2013 figures have been restated in line with the new method of cost allocation.

For Additions/releases of reorganisation provisions reference is made to the disclosure on the reorganisation provisions in Note 16 “Other liabilities”.

26 Interest and dividend included in net cash flow

Interest and dividend received or paid

	2014	2013
Interest received	2,191,569	2,033,366
Interest paid	-263,532	-92,160
Dividend received	190,434	171,115
Dividend paid	-11,981	

Interest received, interest paid and dividends received are included in operating activities in the Consolidated statement of cash flows.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

27 Cash and cash equivalents

Reconciliation cash and cash equivalents with Consolidated statement of cash flows

	2014	2013
Cash and bank balances	93,368	119,327
Intercompany receivables	50,230	704,818
Intercompany payables	-24,189	-113,982
Cash and cash equivalents	**119,409**	**710,163**

28 Taxation

NN Leven is part of the fiscal unity for corporation tax purposes of NN Group making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group. "Income tax payable" concerns tax payable to NN Group for the most recent quarter.

Some of the subsidiaries of REI Investment I B.V. are not part of the fiscal unity of NN Group.

Deferred tax (2014)

	Net liability 2013[1]	Change through equity	Change through net result	Other changes	Exchange rate differences	Net liability 2014[1]
Investments	594,158	1,750,004	-1,570	173,239	-207	2,515,624
Real estate investments	282,423		7,191	-197,198		92,416
Acquisition costs	46,635		4,235		-30	50,840
Fiscal equalisation reserve	337					337
Depreciation	-167		-77		3	-241
Insurance provisions	-1,145,613	-862,528	-18,373		252	-2,026,262
Cash flow hedges	880,506	575,847				1,456,353
Other provisions	-16,053		8,929		4	-7,120
Receivables	-1,313		198		13	-1,102
Loans						
Unused tax losses carried forward	-17,388		-929	3,483		-14,834
Other	35,575	-17,989	507	-184	-35	17,874
Deferred tax	**659,100**	**1,445,334**	**111**	**-20,660**		**2,083,885**
Presented in the balance sheet as:						
– deferred tax liabilities	659,234					2,083,885
– deferred tax assets	-134					
Deferred tax	**659,100**					**2,083,885**

1 + = liability, – = asset

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Deferred tax (2013)

	Net liability 2012[1]	Change through equity	Change through net result	Other changes	Exchange rate differences	Net liability 2013[1]
Investments	1,251,744	-653,107	-3,741	849	-1,587	594,158
Real estate investments	340,845		-22,698	-35,724		282,423
Acquisition costs	41,358		5,509		-232	46,635
Fiscal equalisation reserve	337					337
Depreciation	1,288		-197	-1,266	8	-167
Insurance provisions	-1,428,959	342,773	-61,396		1,969	-1,145,613
Cash flow hedges	1,135,762	-255,256				880,506
Other provisions	-26,946		10,853		40	-16,053
Receivables	-1,649		217		119	-1,313
Loans	31			-31		
Unused tax losses carried forward	-22,343		757	4,198		-17,388
Other	35,277	-242	915	-70	-305	35,575
Deferred tax	**1,326,745**	**-565,832**	**-69,781**	**-32,044**	**12**	**659,100**

Presented in the balance sheet as:		
– deferred tax liabilities	1,327,312	659,234
– deferred tax assets	-567	-134
Deferred tax	**1,326,745**	**659,100**

1 + = liability, – = asset

The portion of the provision for deferred taxes, that relates to REI Investment I B.V. and is not part of the fiscal unity, amounts to EUR 19,362 (an asset) (2013: EUR 1,770 (an asset)).

Deferred tax on unused tax losses carried forward

	2014	2013
Total unused tax losses carried forward	195,517	193,125
Unused tax losses carried forward not recognised as a deferred tax asset[1]	-151,601	-137,837
Unused tax losses carried forward recognised as a deferred tax asset[2]	**43,916**	**55,288**
Average tax rate	33.8%	31.4%
Deferred tax asset	**14,834**	**17,388**

1 Unused tax losses carried forward that are not recognised as a deferred tax asset come from the subsidiaries Parcom Capital B.V. and REI Investment I B.V. This item is not recognised as a deferred tax asset due to uncertainty as to whether it can be used to offset tax gains in the future.
2 Unused tax losses carried forward that are recognised as a deferred tax asset come from the subsidiary REI Investment I B.V.

The following tax losses carried forward and tax credits will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2014	2013	2014	2013
Within 1 year	28,686			3,641
More than 1 year but less than 5 years	61,892	77,709		15,066
More than 5 years but less than 10 years		12,869		-4,959
More than 10 years but less than 20 years				
Unlimited	61,023	47,259	43,916	41,540
Total unused tax losses carried forward	**151,601**	**137,837**	**43,916**	**55,288**

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Taxation on result

	2014	2013
Current tax	7,704	124,264
Deferred tax	111	-69,778
Taxation on result	**7,815**	**54,486**

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

	2014	2013
Result before tax from continuing operations	193,703	307,420
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**48,426**	**76,855**
Associates exemption	-15,356	-18,237
Other income not subject to tax	-18,804	-8,024
Expenses not deductible for tax purposes	-907	1,668
Impact on deferred tax from change in tax rates	-1,472	-4,829
Adjustments to prior periods	-4,072	7,053
Effective tax amount	**7,815**	**54,486**
Effective tax rate	**4.0%**	**17.7%**

The weighted average statutory tax rate in 2014 was 25% (2013: 25%).

Taxation on components of other comprehensive income

	2014	2013
Unrealised revaluations Available-for sale investments and other	-1,260,074	642,871
Realised gains/losses transferred to the profit and loss account	-132,396	-106,294
Changes in cash flow hedge reserve	-320,592	255,256
Transfer to insurance liabilities	521,059	-344,561
Exchange rate differences	2,403	-2,403
Income tax	**-1,189,600**	**444,869**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

29 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2014	**2013**	**2014**	**2013**
Financial assets				
Cash and cash equivalents	93,368	119,327	93,368	119,327
Financial assets at fair value through profit or loss:				
– trading assets	591,381	723,327	591,381	723,327
– investments for risk of policyholders	19,265,559	16,398,342	19,265,559	16,398,342
– non-trading derivatives	5,356,174	1,758,287	5,356,174	1,758,287
– designated as at fair value through profit or loss	84,605	74,490	84,605	74,490
Available-for-sale investments	45,322,840	36,013,697	45,322,840	36,013,697
Loans	18,735,345	17,330,445	17,471,671	16,765,053
Other assets[1]	1,526,671	2,173,060	1,526,671	2,173,060
Financial assets	**90,975,943**	**74,590,975**	**89,712,269**	**74,025,583**
Financial liabilities				
Subordinated debt	661,560		600,000	
Other borrowed funds	747,555	1,453,370	747,555	1,453,370
Investment contracts for risk of company	814,318	831,476	743,724	773,701
Investment contracts for risk of policyholders	50,632	60,314	50,632	60,314
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	1,615,622	612,214	1,615,622	612,214
Other liabilities[2]	2,041,686	1,468,732	2,041,686	1,468,732
Financial liabilities	**5,931,373**	**4,426,106**	**5,799,219**	**4,368,331**

1 Other assets does not include (deferred) tax assets and property obtained from foreclosures.
2 Other liabilities does not include (deferred) tax liabilities, insurance provisions, other provisions and other taxation and social security contributions.

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

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

Cash and cash equivalents
Cash and cash equivalents are recorded at their nominal value which approximates its fair value.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Financial assets and liabilities at fair value through profit or loss and Available-for-sale Investments

Derivatives

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

Equity securities

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

Debt securities

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

Loans

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

Other assets

The other assets are stated at their carrying value which is not significantly different from their fair value.

Subordinated debt

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

Other borrowed funds

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

Investment contracts

For investment contracts for risk of the company the fair value have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts for risk of policyholders the fair value generally equals the fair value of the underlying assets. For other investment-type contracts, the fair value is estimated based on the cash surrender values.

Other liabilities

The other liabilities are stated at their carrying value which is not significantly different from their fair value.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Financial assets and liabilities at fair value

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

Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	47	14,123	577,211	591,381
Investments for risk of policyholders	16,171,185	3,071,418	22,956	19,265,559
Non-trading derivatives	223	5,355,951		5,356,174
Financial assets designated as at fair value through profit or loss	46,831	37,774		84,605
Available-for-sale investments	35,586,988	8,358,141	1,377,711	45,322,840
Financial assets	**51,805,274**	**16,837,407**	**1,977,878**	**70,620,559**
Financial liabilities				
Investment contracts for risk of policyholders		50,632		50,632
Non-trading derivatives	5,937	1,609,685		1,615,622
Financial liabilities	**5,937**	**1,660,317**		**1,666,254**

Methods applied in determining the fair value of financial assets and liabilities (2013)

	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	9	3,118	720,200	723,327
Investments for risk of policyholders	16,128,855	245,130	24,357	16,398,342
Non-trading derivatives	1,150	1,757,137		1,758,287
Financial assets designated as at fair value through profit or loss	41,823	32,667		74,490
Available-for-sale investments	30,459,987	3,933,361	1,620,349	36,013,697
Financial assets	**46,631,824**	**5,971,413**	**2,364,906**	**54,968,143**
Financial liabilities				
Investment contracts for risk of policyholders	60,314			60,314
Non-trading derivatives	1,887	610,327		612,214
Financial liabilities	**62,201**	**610,327**		**672,528**

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

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

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

Level 1 – (Unadjusted) Quoted prices in active markets

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Level 2 – Valuation technique supported by observable inputs

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

Level 3 – Valuation technique supported by unobservable inputs

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

Level 3 Financial assets (2014)

	Trading assets	Investments for risk of policyholders	Available-for-sale investments	Total
Level 3 Financial assets – Opening balance	720,200	24,357	1,620,349	2,364,906
Amounts recognised in the profit and loss account during the year	76,169	-989	-75,502	-322
Revaluation recognised in other comprehensive income (equity) during the year			130,069	130,069
Purchase of assets	30,359		81,319	111,678
Sale of assets	-114,677	-412	-82,149	-197,238
Maturity/settlement				
Transfers into Level 3	1,989			1,989
Transfers out of Level 3	-119,090		-309,784	-428,874
Other changes	-17,739			-17,739
Exchange rate differences			13,409	13,409
Level 3 Financial assets – Closing balance	**577,211**	**22,956**	**1,377,711**	**1,977,878**

Level 3 Financial assets (2013)

	Trading assets	Investments for risk of policyholders	Available-for-sale investments	Total
Level 3 Financial assets – Opening balance	519,044	29,541	1,624,502	2,173,087
Amounts recognised in the profit and loss account during the year	85,249	-1,612	-104,127	-20,490
Revaluation recognised in other comprehensive income (equity) during the year			-47,994	-47,994
Purchase of assets	27,348		153,647	180,995
Sale of assets	-64,345	-1,683	-11,443	-77,471
Maturity/settlement			-9,539	-9,539
Transfers into Level 3	27,114		15,252	42,366
Transfers out of Level 3	-19,509	-1,889		-21,398
Other changes	145,299			145,299
Exchange rate differences			51	51
Level 3 Financial assets – Closing balance	**720,200**	**24,357**	**1,620,349**	**2,364,906**

Level 3 – Amounts recognised in the profit and loss account during the year (2014)

	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	54,449	21,720	76,169
Investments for risk of policyholders	-989		-989
Available-for-sale investments	-75,570	68	-75,502
Amounts recognised in the profit and loss account during the year	**-22,110**	**21,788**	**-322**

Notes to the Consolidated annual accounts of NN Leven – continued

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Level 3 – Amounts recognised in the profit and loss account during the year (2013)

	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	97,434	-12,185	85,249
Investments for risk of policyholders	-50	-1,562	-1,612
Available-for-sale investments	-106,158	2,031	-104,127
Amounts recognised in the profit and loss account during the year	**-8,774**	**-11,716**	**-20,490**

Level 3 financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2014 of EUR 70,620 million include an amount of EUR 1,978 million (2.8%) that is classified as Level 3 (31 December 2013: EUR 2,365 million, being 4.3%). Changes in Level 3 are disclosed above in the table "Level 3 Financial assets".

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

Unrealised gains and losses that relate to Level 3 financial assets are included in the profit and loss account as follows:

- those relating to trading assets are included in Net trading income;
- those relating to investments for risk of policyholders are included in Underwriting expenditure;
- those relating to non-trading derivatives are included in Valuation results on non-trading derivatives; and
- those relating to financial assets designated as at fair value through profit or loss are included in Valuation results on non-trading derivatives – Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading).

Unrealised gains and losses that relate to Available-for-sale investments are recognised in Other comprehensive income (equity) and included in Reserves in the line Unrealised revaluations available-for-sale investments.

Trading assets

Of the total amount of financial assets classified as Level 3 as at 31 December 2014 of EUR 2.0 billion, an amount of EUR 0.6 billion relates to trading assets (private equity investments) that are recognised at fair value through profit and loss.

Valuation methodology

The fair value of private equity investments is generally based on a forward looking market approach. This approach uses a combination of company financials and quoted market multiples. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and by reference to market valuations for similar entities quoted in an active market. Valuations of private equity investments are mainly based on an "adjusted multiple of earnings" methodology on the following basis:

- Earnings: Reported earnings are adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, for run-rate adjustments to arrive at maintainable earnings. The most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA"). Earnings used are usually management forecasts for the current year, unless data from management accounts for the 12 months preceding the reporting period or the latest audited annual accounts provide a more reliable estimate of maintainable earnings.

- Earnings multiples: Earnings multiples are derived from comparable listed companies or relevant market transaction multiples for companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus. Adjustments are made for differences in the relative performance in the group of comparable companies.

- Adjustments: A marketability or liquidity discount is applied based on factors such as alignment with management and other investors and NN Leven's investment rights in the deal structure.

Notes to the Consolidated annual accounts of NN Leven – continued

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Key assumptions

Key assumptions in the valuation of private equity investments are the Earnings multiples and the Marketability/liquidity adjustments. The marketability/liquidity adjustment is typically in the range of 10% to 20%. Earnings multiples used range from 2.8x to 8.8x (2013: 2.6x to 10.1x) after Marketability/liquidity adjustment (net).

Sensitivities

If the net multiples (Earnings multiple adjusted for marketability/liquidity) would have been increased or decreased by 10%, this would have had an impact on the directly held unquoted private equity investment portfolio of +12% and -12% respectively (2013: +13% and -13%).

Investments for risk of policyholders

Of the EUR 2.0 billion Level 3 investments EUR 23 million relates to investments for risk of policyholders. Therefore Net result is unaffected by reasonable changes in the fair value of these investments.

Available-for-sale investments

The remaining EUR 1.4 billion relates to Available-for-sale investments whose fair value is generally based on unadjusted quoted prices in inactive markets. This includes for example debt securities and shares in real estate investment funds and private equity investment funds for which the fair value is determined using quoted prices for the securities or quoted prices obtained from the asset managers of the funds. It is estimated that a 10% change in valuation of these investments would have no impact on Net result but would increase or reduce Shareholders' equity by EUR 140 million being approximately 1.0% (before tax) of total equity.

Financial assets and liabilities at amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	93,368			93,368
Loans	24,006	3,332,377	15,378,962	18,735,345
Financial assets	**117,374**	**3,332,377**	**15,378,962**	**18,828,713**
Financial liabilities				
Subordinated debt		661,560		661,560
Other borrowed funds	472,220	262,555	12,780	747,555
Investment contracts for risk of company			814,318	814,318
Financial liabilities	**472,220**	**924,115**	**827,098**	**2,223,433**

Methods applied in determining the fair value of financial assets and liabilities (2013)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	119,327			119,327
Loans		1,642,765	15,687,680	17,330,445
Financial assets	**119,327**	**1,642,765**	**15,687,680**	**17,449,772**
Financial liabilities				
Subordinated debt				
Other borrowed funds			1,453,370	1,453,370
Investment contracts for risk of company			831,476	831,476
Financial liabilities			**2,284,846**	**2,284,846**

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30 Fair value of non-financial assets

The following table presents the estimated fair value of NN Leven's non-financial assets and liabilities that are measured at fair value in the balance sheet.

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2014	2013	2014	2013
Real estate investments	1,154,893	777,068	1,154,893	777,068

The fair value of the non-financial assets were determined as follows:

Methods applied in determining the fair value of non-financial assets (2014)

	Level 1	Level 2	Level 3	Total
Real estate investments			1,154,893	**1,154,893**

Methods applied in determining the fair value of non-financial assets (2013)

	Level 1	Level 2	Level 3	Total
Real estate investments			777,068	**777,068**

Level 3 Non-financial assets

	Real estate investments	
	2014	2013
Level 3 Non-financial assets – Opening balance	777,068	822,417
Amounts recognised in the profit and loss account during the year	-8,555	-19,013
Purchase of assets	397,888	202,592
Sale of assets	-9,830	-229,118
Exchange rate differences		
Other	-1,678	190
Level 3 Non-financial assets – Closing balance	**1,154,893**	**777,068**

Level 3 – Amounts recognised in the profit and loss account during the year (2014)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	1,249	-9,804	**-8,555**

Level 3 – Amounts recognised in the profit and loss account during the year (2013)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	-19,013		**-19,013**

Real estate investments

Valuation methodology

The fair value of real estate is based on regular appraisals by independent, qualified valuers. The fair value is established using valuation methods that take into account recent comparable market transactions, capitalisation of income methods and/or discounted cash flow calculations. As volumes of actual transactions have been lower in recent years, more emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. Future rental income is taken into account in accordance with the terms in existing leases, (expected) vacancies, estimations of the rental values for new leases when leases expire and incentives like rent-free periods. These estimated cash flows are discounted using market based discount rates that reflect appropriately the risk characteristics of the real estate investment.

Market conditions in recent years have led to a reduced level of real estate transactions. Consequently, the fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

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Amounts in thousands of euros, unless stated otherwise

Key assumptions

Key assumptions in the valuation of real estate include the estimated current rental value per square metre, the estimated future rental value per square metre (ERV), the net initial yield and the vacancy rate. These assumptions are disclosed in the following table:

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield	Vacancy	Average lease term
			in euros	in euros	%	%	in years
The Netherlands							
Office	54,000	Income Capitalisation	372	309	13.5		2.5
Industrial	14,630	DCF	55	49	7.5		3.1
Germany							
Retail	151,200	DCF	192 - 377	202 - 378	5.4 - 5.5		6.8
Office	49,700	DCF	259	242	5.1		4.1
Industrial	193,100	DCF	63 - 78	36 - 102	5.4 - 7.7	10	5.5
France							
Office	123,700	Income Capitalisation	489 - 592	445 - 550	2.8 - 6.1		4.2
Industrial	117,520	Income Capitalisation	42 - 109	36 - 102	5.8 - 10.2	6	4.9
Spain							
Retail	160,510	DCF	165	182	6	11	6.8
Italy							
Retail	61,200	DCF	0 - 14	230	-7.8 - 0.4	67	2.3
Office	144,800	DCF	514	482	6.9	1	3.4
Belgium							
Retail	18,245	DCF	130	140	6.6	10	3.2
Industrial	22,390	DCF	55	43	8.7		3.3
Real estate under construction and other	43,898						
Total Real estate	**1,154,893**					**7.3**	**4.9**

Sensitivities

Significant increases (decreases) in the estimated rental value and rent growth in isolation would result in a significantly higher (lower) fair value of the real estate investments. Significant increases (decreases) in the long-term vacancy rate and discount rate in isolation would result in a significantly lower (higher) fair value of the real estate investments.

31 Derivatives and hedge accounting

Use of derivatives and hedge accounting

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. NN Leven applies cash flow hedge accounting and net investment hedge accounting as applicable under IFRS-EU. The company's detailed accounting policies for these hedge models are set out in Note 1 "Accounting policies" in the section on "Accounting policies for specific items".

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To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Leven mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS-EU, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view. With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk.

Cash flow hedge accounting

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

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

For the year ended 31 December 2014, NN Leven recognised EUR 1,675,825 (2013: EUR -1,021,025) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2014 is EUR 5,825,847 (2013: EUR 3,522,454) gross and EUR 4,396,223 (2013: EUR 2,641,841) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 43 years with the largest concentrations in the range of 1 year to 8 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR -31,780 income (2013: EUR 31,308 income) which was recognised in the profit and loss account.

As at 31 December 2014, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 3,449,851 (2013: EUR 1,106,701), presented in the balance sheet as EUR 3,557,125 (2013: EUR 1,389,993) positive fair value under assets and EUR 107,947 (2013: EUR 283,292) negative fair value under liabilities.

As at 31 December 2014 and 2013, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and Interest expenses on non-trading derivatives is EUR 261,064 (2013: EUR 264,059) and EUR 35,535 (2013: EUR -34,676), respectively, relating to derivatives used in cash flow hedges.

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32 Assets by contractual maturity

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

Assets by contractual maturity (2014)

	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	93,368						93,368
Financial assets at fair value through profit or loss:							
– trading assets		51	92	449	1,112	589,677	591,381
– investments for risk of policyholders[2]						19,265,559	19,265,559
– non-trading derivatives	47	39,415	19,005	181,462	5,116,245		5,356,174
– designated as at fair value through profit or loss				10,662		73,943	84,605
Available-for-sale investments	73,719	113,303	437,670	2,871,063	36,409,876	5,417,209	45,322,840
Loans	188,040	400,530	1,456,851	4,001,036	11,411,855	13,359	17,471,671
Reinsurance contracts	11,436	19,346	73,800	334,386	276,002	435,643	1,150,613
Intangible assets	186	371	1,670	4,514			6,741
Deferred acquisition costs	2,115	4,392	22,348	77,467	187,249		293,571
Other assets	796,979	186,922	487,040	11,420	47,096	5,474	1,534,931
Remaining assets (for which maturities are not applicable)[3]						2,749,347	2,749,347
Total assets	**1,165,890**	**764,330**	**2,498,476**	**7,492,459**	**53,449,435**	**28,550,211**	**93,920,801**

1 Includes assets on demand.
2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Leven.
3 Included in remaining assets for which maturities are not applicable are equipment, real estate investments and associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity (2013)

	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	119,327						119,327
Financial assets at fair value through profit or loss:							
– trading assets	29	10	117	308	9	722,854	723,327
– investments for risk of policyholders[2]						16,398,342	16,398,342
– non-trading derivatives		1,470	1,138	168,095	1,587,584		1,758,287
– designated as at fair value through profit or loss			36,438	11,989		26,063	74,490
Available-for-sale investments	75,135	51,440	575,166	2,040,614	28,494,350	4,776,992	36,013,697
Loans	49,727	84,994	343,669	1,945,227	14,219,053	122,383	16,765,053
Reinsurance contracts	11,645	17,599	71,292	345,099	293,097	445,673	1,184,405
Intangible assets	335	669	3,011	8,043			12,058
Deferred acquisition costs	2,732	5,648	28,995	91,741	202,378		331,494
Other assets	1,515,533	246,122	395,245	10,653	3,951	7,032	2,178,536
Remaining assets (for which maturities are not applicable)[3]						1,669,275	1,669,275
Total assets	**1,774,463**	**407,952**	**1,455,071**	**4,621,769**	**44,800,422**	**24,168,614**	**77,228,291**

1 Includes assets on demand.
2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Leven.
3 Included in remaining assets for which maturities are not applicable are equipment, real estate investments and associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

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33 Liabilities by maturity

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

Non-financial liabilities are included based on a breakdown of the discounted balance sheet amounts by expected maturity. Reference is made to the Liquidity risk paragraph in Note 44 "Risk management" for a description on how liquidity risk is managed.

Liabilities by maturity (2014)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]					600,000			600,000
Other borrowed funds	450,000			82,220	215,335			747,555
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	30,963	-53,762	123,241	561,163	2,422,099		-1,468,082	1,615,622
Financial liabilities	**480,963**	**-53,762**	**123,241**	**643,383**	**3,237,434**		**-1,468,082**	**2,963,177**
Insurance and investment contracts	430,338	758,933	3,692,745	10,798,764	36,006,190	20,130,670		71,817,640
Other liabilities	1,100,467	168,265	133,547	217,729	2,153,894	498,878		4,272,780
Non-financial liabilities	**1,530,805**	**927,198**	**3,826,292**	**11,016,493**	**38,160,084**	**20,629,548**		**76,090,420**
Total liabilities	**2,011,768**	**873,436**	**3,949,533**	**11,659,876**	**41,397,518**	**20,629,548**	**-1,468,082**	**79,053,597**
Coupon interest due on financial liabilities[3]	-957	33,563	-1,277	127,417	165,335			324,081

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).
2 Subordinated debt maturities are presented based on first call date. For legal date of maturity reference is made to Note 12 "Subordinated debt".
3 For some of the Other borrowed funds NN Leven receives a discount on the interest paid. Given the low interest rates this resulted in negative amounts on the interest due for some periods.

Liabilities by maturity (2013)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Other borrowed funds	1,185,259			65,556	202,555			1,453,370
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	10,809	9,991	22,560	237,679	786,602		-455,427	612,214
Financial liabilities	**1,196,068**	**9,991**	**22,560**	**303,235**	**989,157**		**-455,427**	**2,065,584**
Insurance and investment contracts	381,001	716,281	3,268,653	9,797,073	31,556,108	17,331,766		63,050,882
Other liabilities	750,227	113,684	91,027	272,431	617,749	510,850		2,355,968
Non-financial liabilities	**1,131,228**	**829,965**	**3,359,680**	**10,069,504**	**32,173,857**	**17,842,616**		**65,406,850**
Total liabilities	**2,327,296**	**839,956**	**3,382,240**	**10,372,739**	**33,163,014**	**17,842,616**	**-455,427**	**67,472,434**
Coupon interest due on financial liabilities[2]	-589	-12	-659	-4,923	-3,188			-9,371

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

34 Assets not freely disposable

The assets not freely disposable relate primarily to investments of EUR 117,395 (2013: EUR 240,032) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 35 "Transfer of financial assets".

35 Transfer of financial assets

The majority of NN Leven's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending.

Transfer of financial assets not qualifying for derecognition

	2014	2013
Transferred assets at carrying amount		
Available-for-sale investments	1,763,292	2,178,908
Associated liabilities at carrying amount		
Other borrowed funds	262,555	262,555

36 Offsetting of financial assets and liabilities

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

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2014)

					Related amounts not offset in the balance sheet		
		Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Balance sheet line item	**Financial instrument**						
Financial assets at fair value through profit or loss							
– Non-trading derivatives	Derivatives	5,356,174		5,356,174	-1,484,387		3,871,787
		5,356,174		**5,356,174**	**-1,484,387**		**3,871,787**
Investments							
– Available-for-sale	Other	93,204		93,204			93,204
		93,204		**93,204**			**93,204**
Total financial assets		**5,449,378**		**5,449,378**	**-1,484,387**		**3,964,991**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2013)

					Related amounts not offset in the balance sheet		
		Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Balance sheet line item	**Financial instrument**						
Financial assets at fair value through profit or loss							
– Non-trading derivatives	Derivatives	1,757,399		1,757,399	-515,666		1,241,733
		1,757,399		**1,757,399**	**-515,666**		**1,241,733**
Investments							
– Available-for-sale	Other	104,440		104,440			104,440
		104,440		**104,440**			**104,440**
Total financial assets		**1,861,839**		**1,861,839**	**-515,666**		**1,346,173**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2014)

					Related amounts not offset in the balance sheet		
		Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Balance sheet line item	**Financial instrument**						
Financial liabilities at fair value through profit or loss							
– Non-trading derivatives	Derivatives	1,490,102		1,490,102	-1,484,387	-5,715	0
		1,490,102		**1,490,102**	**-1,484,387**	**-5,715**	**0**
Other items where offsetting is applied in the balance sheet							
Total financial liabilities		**1,490,102**		**1,490,102**	**-1,484,387**	**-5,714**	**0**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2013)

					Related amounts not offset in the balance sheet		
		Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Balance sheet line item	**Financial instrument**						
Financial liabilities at fair value through profit or loss							
– Non-trading derivatives	Derivatives	528,899		528,899	-515,666	-1,625	11,608
		528,899		**528,899**	**-515,666**	**-1,625**	**11,608**
Other items where offsetting is applied in the balance sheet		1,185,259		1,185,259		-1,185,259	0
Total financial liabilities		**1,714,159**		**1,714,159**	**-515,666**	**-1.186,884**	**11,608**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

37 Contingent liabilities and commitments

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

Contingent liabilities and commitments (2014)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	9,049	33,806	285,318	141,654	23,819	39,354	533,000
Guarantees		375		5,676	1,370		7,421
Contingent liabilities and commitments	**9,049**	**34,181**	**285,318**	**147,330**	**25,189**	**39,354**	**540,421**

Contingent liabilities and commitments (2013)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	48,015	127,593	106,911	191,845	32,330	28,649	535,343
Guarantees	2,805			250			3,055
Contingent liabilities and commitments	**50,820**	**127,593**	**106,911**	**192,095**	**32,330**	**28,649**	**538,398**

The commitments mainly concern mortgage offers issued, investment-related liabilities (Parcom Capital B.V. and REI Investment I B.V.) and future rental commitments. The guarantees, other than those included in Insurance contracts, are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows.

Furthermore, NN Leven leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non-cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

	2014
2015	12,315
2016	7,796
2017	4,142
2018	4,142
2019	4,142
Years after 2019	23,819

In addition to the items include in contingent liabilities, NN Leven has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes.

Tax liabilities
NN Leven is part of the fiscal unity for corporation tax purposes of NN Group making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group.

Together with the other group companies that are part of the fiscal unity, NN Leven is jointly and severally liable for income tax payable by NN Group. The income tax receivable by NN Group at the end of 2014 amounts to EUR 16,601 (2013: EUR 3,896 payable).

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

38 Pension and other post-employment benefits

Defined contribution ("DC") plans

NN Leven is sponsor of the NN CDC Pensioenfonds. The assets of all NN Group's DC plans are held in an independently administered fund. Contributions are determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities. The expense recognised in staff expenses by NN Leven for DC plans amounts to EUR 331,710 thousand.

Before 2014 NN Leven participated in the defined benefit plan in the Netherlands of ING Groep (the ING Dutch Pension Fund).

The ING Dutch Pension Fund shared the risks between individual companies within ING Groep and consequently the liability specific to any one company within the Netherlands could not be determined. ING Groep charged individual group entities with a portion of the total DB cost based upon the employees currently in service at that entity. The company included this charge in the profit and loss for the year on the basis of defined contribution ("DC").

In February 2014, ING reached final agreement with the trade unions, the ING Dutch Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI), to transfer all future funding and indexation obligations under ING's current closed DB plan in the Netherlands, to the ING Dutch Pension Fund. The agreement made the ING Dutch Pension Fund financially independent from ING Groep.

NN Group has recognised a charge of EUR 541 million, as effect of curtailment or settlement, related to the Dutch DB pension plan settlement. Of this impact, EUR 308 million was allocated as a charge to NN Leven.

39 Legal proceedings

General

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

Dutch unit-linked products

Since the end of 2006, unit-linked products (commonly referred to in Dutch as "beleggingsverzekeringen") have received negative attention in the Dutch media, from the Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008, NN Group's Dutch insurance subsidiaries, among which NN Leven, reached an outline agreement with two main consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies had a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008, costs of the settlements were valued at EUR 365 million for which adequate provisions have been established and of which a substantial portion has been paid out. The remaining unpaid part of the provision as per 31 December 2014 is solely available to cover costs relating to the settlements agreed in 2008. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations, with the second main consumer protection organisation signing its agreement in June 2012. In addition, NN Group's Dutch insurance subsidiaries, among which NN Leven, announced additional measures (flankerend beleid) that comply with the "Best in Class" criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an additional agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about the compensation. The agreements with the two consumer protection organisations are not binding on policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures offered by NN Leven prevent individual policyholders from initiating legal proceedings against NN Leven and making claims for damages.

In November 2013, the so-called "Vereniging Woekerpolis.nl", an association representing the interests of policyholders, initiated a so-called "collective action", requesting the District Court in Rotterdam to declare that NN's Dutch insurance subsidiaries, among which NN Leven, sold products in the market, which are defective in various respects (e.g. on transparency regarding cost charges and other product characteristics, and included risks for which the insurer failed to warn, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to difference in geometric versus arithmetic returns). These claims have been rejected by NN and it will defend itself in these proceedings.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Apart from the aforementioned "collective action", several other claim organisations and initiatives were established on behalf of policyholders, such as the organisation Wakkerpolis. This organisation primarily concentrates on the recovery of initial costs for policyholders, based on an interim ruling of the KiFiD issued on 13 May 2013 in an individual case. In this case, the KiFiD concluded that there is no contractual basis for charging initial costs (which are costs charged to the policy during a limited period of time). Apart from the initial costs, it can be derived from the interim ruling – in accordance with past rulings of the KiFiD – that an insurer is obliged to warn against the leverage and capital consumption effect (which is the effect caused by the dependency of life insurance premium on the value of the policy; the lower the value of the policy, the higher the life insurance premium). NN Leven believes that this interim ruling is incorrect on several legal grounds.

In proceedings pending before the District Court in Rotterdam, the Court has upon request of the parties, including NN Leven, submitted preliminary questions to the European Court of Justice to obtain clarity on principal legal questions with respect to cost transparency related to unit-linked policies. On 29 April 2015 the European Court of Justice issued its ruling on these preliminary questions submitted in relation to unit-linked products. The main preliminary question considered by the European Court of Justice is whether European law permits the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. The European Court of Justice ruled that the information requirements prescribed by the applicable European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for a policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Although the European Court does not decide on the applicable standards in specific cases and solely provides clarification on the interpretation of the applicable European directive, the ruling of the European Court of Justice has given clarification on this question of legal principle which is also the subject of other legal proceedings in the Netherlands. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

NN's Dutch insurance subsidiaries, among which NN Leven, have issued, sold or advised on approximately one million individual unit-linked policies. There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed. The financial consequences of any of the aforementioned factors or a combination thereof can be substantial for the Dutch insurance business of NN Leven and may affect NN Leven, both financially and reputationally. However, these consequences cannot be reliably estimated or quantified at this point.

40 Principal subsidiaries

The principal subsidiaries and their statutory place of incorporation or primary place of business are as follows:

Principal subsidiaries of NN Leven

		Proportion of ownership interest held by NN Leven	
Subsidiary	**Statutory place**	**2014**	**2013**
REI Investment I B.V.	The Hague, the Netherlands	90.6%	89.9%
Parcom Capital B.V.	Schiphol, the Netherlands	86.3%	86.3%
Private Equity Investments B.V.[1]	The Hague, the Netherlands	100%	100%
Infrastructure Debt Investments B.V.	The Hague, the Netherlands	100%	100%
Korea Investment Fund B.V.	The Hague, the Netherlands	100%	100%
Mittelstand Senior Debt Investment B.V.	The Hague, the Netherlands	100%	

1 Per 12 December 2014 German Private Equity Investments B.V. was renamed to Private Equity Investments B.V.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Principal subsidiaries of Parcom Capital B.V.

Subsidiary	Statutory place	Proportion of ownership interest held by Parcom Capital B.V. 2014	2013
Parc IT BV	Hilversum, the Netherlands	95%	95%
Parc-IT II BV	Bunnik, the Netherlands	98%	98%
Parc IT Holding BV	Hilversum, the Netherlands	100%	100%
Parcom Ulysses I Sàrl	Luxembourg, Luxembourg	100%	100%
Parcom Ulysses II Sàrl	Luxembourg, Luxembourg	100%	100%
ING Parcom Private Equity FCPR	Paris, France	100%	100%
ING Parcom Private Equity FCPR II	Paris, France	100%	100%
ING Parcom Private Equity Feeder FCPR	Paris, France	57%	57%
ING Parcom Private Equity II Feeder FCPR	Paris, France	75%	75%
ING Parcom Private Equity III FCPR	Paris, France	100%	100%
ING Parcom Private Equity III Feeder FCPR	Paris, France	62%	63%
ING Parcom Private Equity IV FCPR	Paris, France	100%	100%
ING Parcom Private Equity IV Feeder FCPR	Paris, France	63%	67%
Parcom Buy Out Fund II BV	Schiphol, the Netherlands	95%	95%
Parcom Buy Out Fund III BV	Schiphol, the Netherlands	95%	95%
Parcom Buy Out Fund IV BV	Schiphol, the Netherlands	100%	100%
Parcom Investment Fund I BV	Schiphol, the Netherlands	100%	95%
Parcom Investment Fund II BV	Schiphol, the Netherlands	100%	100%
Parcom Investment Fund III BV	Schiphol, the Netherlands	100%	100%
PGIH Beheer B.V.	Haarlemmermeer, the Netherlands	66%	
SUH B.V.	Schiphol, the Netherlands	100%	100%

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Principal subsidiaries of REI Investment I B.V.

Subsidiary	Statutory place	Proportion of ownership interest held by REI Investment I B.V. 2014	2013
Arnhem-Staete B.V.	The Hague, the Netherlands	100%	100%
REI Belgium Warande B.V.	Schiphol, the Netherlands	100%	100%
REI Belgium Puurs n.v.	Brussels, Belgium	100%	
ING Real Estate Evere S.A.	Brussels, Belgium	100%	100%
Grupo Berkley Tres S.L.	Madrid, Spain	100%	100%
REI Spain Vitoria S.L.	Vitoria-Gasteiz, Spain	100%	
RPFI Vitoria S.L.	Vitoria-Gasteiz, Spain	100%	
Bodio 1 S.R.L.	Milan, Italy	100%	100%
Bodio 2 S.R.L	Milan, Italy	100%	100%
Bodio 3 S.R.L	Milan, Italy	100%	100%
Galleria Commerciale Limbiate S.R.L.	Milan, Italy	100%	100%
Stadtgalerie HeilbroNN GmbH & Co KG	Frankfurt, Germany	95%	95%
REI Altenwerder GmbH & Co KG	Frankfurt, Germany	95%	95%
LZA III Mobi GmbH	Frankfurt, Germany	95%	95%
LZA III Altenwerder Grundstuckverwaltung GmbH	Frankfurt, Germany	95%	95%
REI Kaiserkai GmbH & Co Kg	Frankfurt, Germany	95%	95%
REI Germany Bergkirchen B.V.	The Hague, the Netherlands	100%	100%
ING RE Logistics Bergkirchen GmbH & Co KG	Frankfurt, Germany	94%	94%
REI Kaiserkai PM GmbH	Frankfurt, Germany	100%	100%
REI Falkensee GmbH & Co KG	Frankfurt, Germany	100%	100%
Westend Villa GmbH	Frankfurt, Germany	100%	100%
INS Holding France S.A.S	Paris, France	100%	100%
INS Bonneuil S.C.I.	Paris, France	100%	100%
Seratna S.C.I.	Paris, France	100%	100%
INS Investment France S.C.I.	Paris, France	100%	100%
INS NVH Participations S.C.I. (in liquidation)	Paris, France	100%	100%
INS II S.C.I.	Paris, France	100%	100%
INS III S.C.I.	Paris, France	100%	100%
INS Jonage S.C.I.	Paris, France	100%	100%
INS Criquebeuf S.C.I.	Paris, France	100%	100%
INS Pusignan S.C.I	Paris, France	100%	100%
INS MER	Paris, France	100%	
INS Saint Priest	Paris, France	100%	
INS Saint-Vulbas SCI	Paris, France	100%	
INS Statolas	Paris, France	100%	
REI Netherlands B.V.	The Hague, the Netherlands	100%	100%
REI Netherlands Venlo Zonneveld B.V.	The Hague, the Netherlands	100%	
REI Fund Netherlands B.V.	The Hague, the Netherlands	100%	100%
Bouwfonds Nationale-Nederlanden B.V.	The Hague, the Netherlands	100%	100%
Nationale-Nederlanden Intervest XII B.V.	The Hague, the Netherlands	100%	100%

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

41 Structured entities

NN Leven's activities involve transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. NN Leven's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in Note 1 "Accounting policies" of these annual accounts, NN Leven establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which NN Leven can exercise control are consolidated. NN Leven may provide support to these consolidated structured entities as and when appropriate, however this is fully reflected in the annual accounts of NN Leven as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed.

Third party managed structured entities

As part of its investment activities, NN Leven invests both in debt and equity instruments of structured entities originated by third parties.

Most of the debt investments of structured entities relates to asset-backed securities (ABS). Reference is made to Note 5 "Loans" where the ABS portfolio is disclosed.

The majority of the equity investments relate to interests in investment funds that are not originated or managed by NN Leven.

NN Leven has significant influence for some of its real estate investment funds as disclosed in Note 6 "Associates and joint ventures".

42 Related parties

In the normal course of business, NN Leven enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions between related parties have taken place on an arm's length basis, and include rendering and receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

NN Leven conducts transactions with its parent company and its subsidiaries. NN Leven is part of ING Groep. The following categories of transactions are conducted under market-compliant conditions with related parties belonging to ING Groep:

- Reinsurance activities through NN Re (Netherlands) N.V.
- Transactions relating to the remuneration of board members.
- The management of financial instruments takes place via a management agreement with NN Investment Partners Holding N.V. (formerly named ING Investment Management Holding N.V.)
- In 2014 Dutch mortgages, with a nominal value of EUR 1,104 million, were transferred from NN Bank to NN Leven. The transfers were made at an arm's length price.
- As of 2014, NN Leven participates in commercial real estate loans initiated by ING Bank N.V (ING Bank). These participations, with a nominal value at year-end 2014 of EUR 381 million, are based on a deal-by deal assessment and consist both of existing deals and new origination. The transactions were made at arm's length.
- Transactions with NN Group concerning the payment of taxes as NN Group heads the fiscal unity. Reference is made to Note 37 "Contingent liabilities and commitments".
- Facility services carried out by group companies.
- NN Insurance Personeel B.V. Reference is made to Note 23 "Staff expenses"

Reinsurance activities through NN Re (Netherlands) N.V.

The results of the insurance activities of the Czech Republic branch are fully reinsured through NN Re (Netherlands) N.V.
Given that the Czech branch reported a positive result of EUR 13,771 (2013: EUR 19,748), an expense of EUR 12,752 (2013: EUR 16,702) under the reinsurance contract is recognised in the result of NN Leven. The difference of EUR 1,019 (2013: EUR 3,045) relates to interest income for NN Leven on capital made available to our Czech operations.

The overall balance of outstanding reinsurance receivables from NN Re (Netherlands) N.V. amounts to EUR 1,077,795 (2013: EUR 1,109,331).

Derivatives transactions

NN Leven does not conduct transactions in derivatives itself. These transactions are conducted mainly via Nationale-Nederlanden Interfinance B.V., for account of NN Leven. The unrealised revaluations of derivatives recognised in the result of NN Leven for the 2014 financial year amount to EUR 333,734 (2013: EUR -179,850).

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Transactions with NN Bank

Transactions with NN Bank

	2014	2013
Assets	348,594	375,464
Liabilities		
Income received	-8,812	15,294
Expenses paid	18,912	3,472

Assets reflect mortgages acquired from Nationale-Nederlanden Bank N.V. Income received reflects interest flows from partially sold and acquired mortgages. The expenses paid are netted and consist of amounts charged by and charged to related parties.

Transactions with ING Groep companies

Income and expenses from NN Leven recharged to ING Groep companies

	Parent company		Other group companies		Total	
	2014	2013	2014	2013	2014	2013
Expenses	1,080	1,200	49,022	214,816	50,102	216,016
Investment income	662	411	3,065,949	350,887	3,066,611	351,298
Income and expenses from NN Leven recharged to ING Groep companies	**1,742**	**1,611**	**3,114,971**	**565,703**	**3,116,713**	**567,314**

Income and expenses from ING Groep companies recharged to NN Leven

	Parent company		Other group companies		Total	
	2014	2013	2014	2013	2014	2013
Expenses	-209,138	-29,469	-661,267	-295,541	-870,405	-325,010
Investment income				-1,177,486		-1,177,486
Income and expenses from ING Groep companies recharged to NN Leven	**-209,138**	**-29,469**	**-661,267**	**-1,473,027**	**-870,405**	**-1,502,496**

Financial assets and liabilities with related parties

	Parent company		Other group companies		Total	
	2014	2013	2014	2013	2014	2013
Financial assets						
Cash and cash equivalents			74,695	96,394	74,695	96,394
Financial assets at fair value through profit or loss:						
– non-trading derivatives			5,350,638	1,787,883	5,350,638	1,787,883
Loans			208,008	543,856	208,008	543,856
Other assets	93,969	584,008	27	120,823	93,996	704,831
Financial assets	**93,969**	**584,008**	**5,633,368**	**2,548,956**	**5,727,337**	**3,132,964**
Financial liabilities						
Subordinated loan	600,000				600,000	
Other borrowed funds			479,479	160,557	479,479	160,557
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives			1,710,898	745,805	1,710,898	745,805
Other liabilities	11,678		642,055	753,916	653,733	753,916
Financial liabilities	**611,678**		**2,832,432**	**1,660,278**	**3,444,110**	**1,660,278**

Key management personnel compensation

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

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Key management personnel compensation (Management Board)

	2014	2013
Fixed compensation:		
– Base salary	1,434	1,524
– Pension costs	264	-1,638
– Other benefits	174	991
Variable compensation:		
– Upfront cash	182	148
– Upfront shares	182	148
– Deferred cash	182	144
– Deferred shares	182	144
Fixed and variable compensation	**2,600**	**1,461**

There is one management board for both NN Leven and NN Services. NN Insurance Personeel B.V. charges the costs of the Management board via NN Group to NN Leven based on an allocation model. These costs are recognised in the profit and loss account in Staff expenses as part of Total expenses.

The total remuneration as disclosed in the table above (for 2014: EUR 2,600) includes all variable remuneration related to the performance year 2014. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff and Operating expenses in 2014, and therefore included in Total expenses in 2014, relating to the fixed expenses of 2014 and the vesting of variable remuneration of earlier performance years, is EUR 2,575.

Remuneration policy

NN Leven is well aware of the public debate about pay in our industry and the responsibility the industry is taking in that light. The remuneration policies of NN Group take into account all applicable regulations and codes, including the Insurer's Code. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholder and society at large, and supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are as follows:

- Enhance focus on the long term interest of NN Group and the interests of customers.
- Align with company values, business strategy and risk appetite.
- Promote and align with robust and effective risk management.
- Create a balanced compensation mix with a reduced emphasis on variable compensation.
- Claw back and hold back arrangements.
- Attract and retain talented personnel.

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

As a subsidiary of NN Group, NN Leven is in scope of the NN Group Remuneration Framework.

In 2013 an organisational restructuring took place within NN Group which came into effect as per the first of June 2013. As of that date the Dutch NN Group business units have been organised in line with the legal entity structure, with separate Management Boards for Netherlands Life, Netherlands Non-Life and NN Bank. For the period before the first of June the Management Board Insurance Benelux was also overseeing the Dutch business units including the Life business. The costs of the Management Board Insurance Benelux were allocated to the entities based on the cost allocation model of Insurance Benelux. The costs of the Management Boards after the first of June 2013 are allocated based on the cost allocation model for the Life and Non-life entities.

The NN Leven Supervisory Board members do not receive any other compensation for their activities. The Supervisory Board members hold remunerated (board) positions within NN Group but not within NN Leven and they do not receive any (additional) allowances for their role as Supervisory Board members.

In 2013 the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150 for each employee, subject to Dutch income tax. The tax is charged to NN Leven and does not affect the remuneration of involved staff. The tax imposed on NN Leven for relevant members of the Management Board is not included in the amounts in the table above.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2014	2013	2014	2013	2014	2013
Management board members	564	938	3.53%	3.03%	19	19

In 2014 the loans and advances to board members included in the table above relate only to those from NN Group companies because of a change in regulation as of the first of January 2014. In 2013 also loans and advances to key management personnel from other ING Groep companies, like ING Bank, had been included.

43 Subsequent events

On 9 February 2015 NN Leven paid EUR 350 million out of the share premium account to Nationale-Nederlanden Nederland B.V. The reported solvency figures as per 31 December 2014 are disclosed after this repayment.

44 Risk management

Introduction

Risk taking is integral to the business model for insurance. NN Leven has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices Nationale-Nederlanden Levensverzekering Maatschappij N.V. seeks to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

The NN Leven approach to risk management is based on the following components:

- Risk management structure and governance systems. NN Leven's risk management structure and governance systems follow the "three lines of defence" model, which outlines the decision-making, execution and oversight responsibilities for the implementation of risk management.

- Risk management framework. NN Leven's risk management framework takes into account the relevant elements of risk management, including its integration into the strategic planning cycle, the management information generated, and a granular risk assessment.

- Risk management policies, standards and processes. NN Group and NN Leven have a comprehensive set of risk management policies, standards and processes, which are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN Leven's business and risk profile. These risk management policies, standards and processes apply throughout the organisation and are used to establish, define, and evaluate our risk tolerance levels and risk control processes.

Organisational risk management structure

The Management board and its Committees

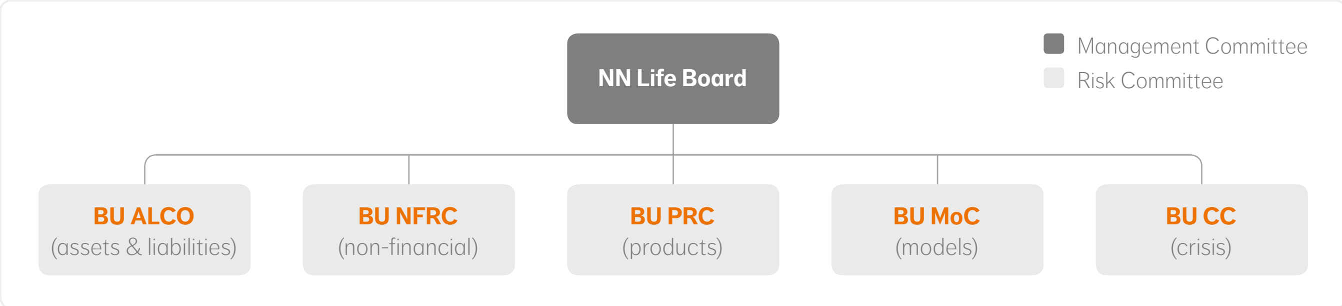
The Management Board, hereafter the 'Board', is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. The responsibilities include that NN Leven complies with applicable legislation and regulations.

While the Board retains responsibility for risk management, it has delegated certain responsibilities to committees which are responsible for day-to-day risk and finance related management decision-making, processes and controls. The following committees, aligned with the NN Group committees, are in place: the Asset & Liability committee, the Non-Financial Risk committee, the Product Risk committee, the Model committee, and the Crisis Committee. Representation in the various committees is provided from the departments in which the risk staff is organised.

The Board and its committees approve all risk management policies as well as the quantitative and qualitative elements of NN Leven's risk appetite. The Board reports and discusses these topics with the Supervisory Board on a regular basis.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise



Chief Executive Officer and Chief Risk Officer

The Chief Executive Officer (CEO), the chairman of the Board, bears responsibility for risk management, including the following tasks:

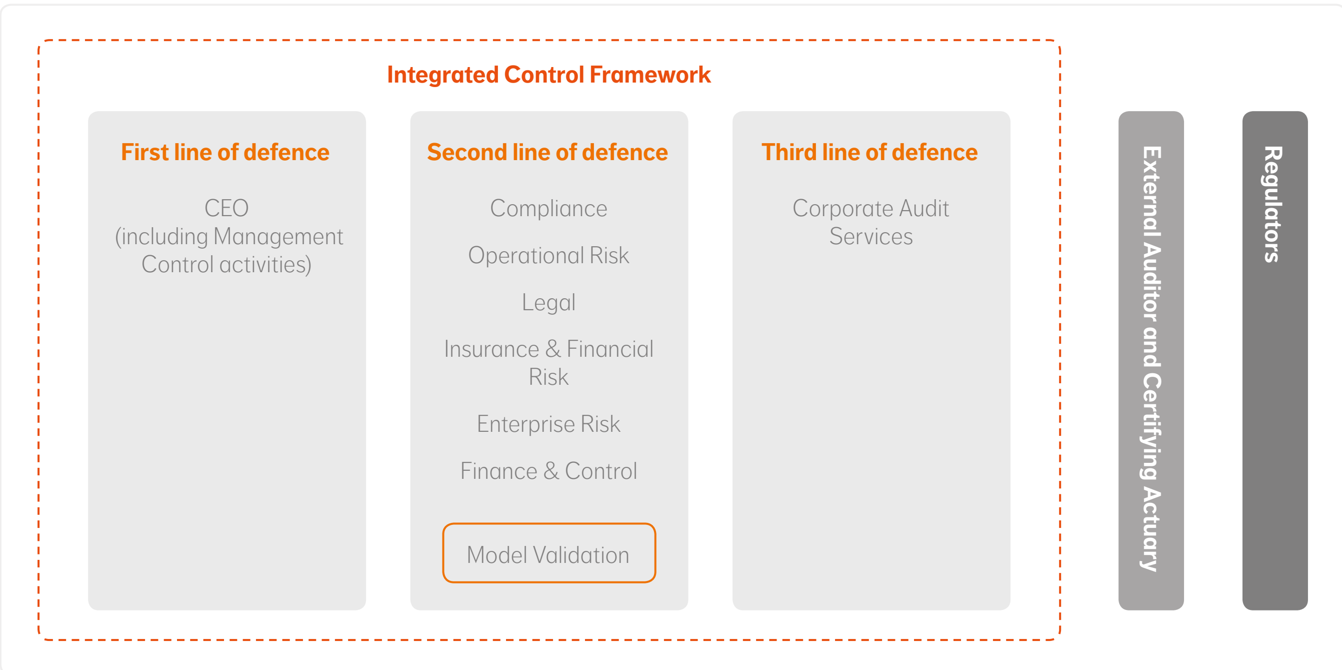
- setting risk policies;
- formulating the risk management strategy and ensuring that it is implemented throughout NN Leven;
- monitoring compliance with the overall risk policies;
- supervising the operation of the risk management and business control systems;
- reporting of NN Leven's risks and the processes and internal business controls; and
- making risk management decisions with regard to matters which may have an impact on the financial results of NN Leven or its reputation, without limiting the responsibility of each individual Board member in relation to risk management.

The CEO is also primarily responsible for the communication of risk-related topics to the NN Group Management Board and Supervisory Board.
The Chief Risk Officer (CRO) is entrusted with the day-to-day execution of these tasks.
The Supervisory Board is responsible for supervising the Board and the general affairs of the Company and its business and providing advice to the Board.

Three lines of defence model

The three lines of defense model, on which NN Leven's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities, and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the Board, ratified by the Supervisory Board, and based on the limits at NN Group.
The diagram below sets out the risk management bodies and functions that constitute the three lines of defence model.

"Three lines of defence" risk governance approach



Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

- First line of defence: the CEO and the senior management that collectively make business decisions have primary accountability for the performance, operations, compliance and effective control of risks affecting the business. They underwrite the insurance products that reflect customer needs and thus know their customers and are well-positioned to act in both the customers' and NN Leven's best interest.

- Second line of defence: oversight functions with a major role for the risk management organisation, headed by the CRO and the legal and compliance function. The membership of the CRO on the Board ensures that risk management issues are heard and discussed at the highest level. The CEO and CRO steer a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions include:

  - developing the policies and guidance for the specific risk and control area;
  - encouraging and objectively challenge/monitor sound risk management throughout the organisation and coordinate the reporting of risks;
  - supporting the first line of defence in making proper risk-return trade-offs;
  - escalation/veto power in relation to business activities that are judged to present unacceptable risks to NN Leven.

- Third line of defence: internal audit is performed by Corporate Audit Services (CAS): CAS provides an independent assessment of the standard of internal control with respect to NN Leven's business and support processes, including governance, risk management and internal controls.

Risk management framework

The diagram below sets out the steps in NN Leven's risk management framework through which NN Leven seeks to identify, measure and manage the risks to which it is exposed. The steps in the cycle are executed sequentially on an on-going basis, and each step provides useful information leading to the next step.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

- Objective setting. Business planning and priority setting is undertaken through an annual medium term planning (MTP) process, which is integrated with NN Leven's own risk and solvency assessment (ORSA) process. At the start of the MTP process, NN Leven establishes strategic objectives. Those strategic objectives are used to establish and define NN Leven's risk appetite, which consists of quantitative and qualitative statements defining those risks NN Leven wishes to acquire, to avoid, to retain and/or to remove. The strategic objectives are cascaded through the enterprise and business plans and evaluated against the risk appetite. Targets and risk limits for NN Leven are aligned with the overall strategy and risk appetite framework at NN Group.

- Event identification. NN Leven identifies events that may potentially impact its risk profile, recognizing that uncertainties exist, and that NN Leven cannot know with certainty which events will occur, or what the outcome or impact would be if it did occur. As part of event identification, NN Leven considers both external and internal factors that affect event occurrence. External factors include economic, business, natural environment, political, demographic, social and technological factors. Internal factors reflect NN Leven's choices and concern such matters as infrastructure, personnel, process and technology.

- Risk assessment. NN Leven considers how identified events might affect the achievement of the strategic objectives. Key risks are assessed on a regular basis and, where appropriate, this analysis is supported by models (such as for NN Leven's Economic Capital). NN Leven also conducts regular top-down assessments of its key risks.

- Risk response and control. Once a risk is assessed, NN Leven identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the risk appetite framework NN Leven designs its response for each assessed risk. Risk and control activities are performed throughout NN Leven, at all organizational levels.

- Information and communication. Communication of information is a key part of NN Leven's risk management framework. Risk management officers, departments, and committees within NN Leven are informed regularly of the position compared to its strategic objectives and its risk appetite to enable them to monitor developments and to timely take appropriate decisions. Comprehensive reports on the financial and insurance risks, and on its non-financial risks, are prepared and discussed every quarter. These reports analyse, amongst others, developments in financial markets and their impact on the capital position, the effectiveness of the hedge positions, and any incidents that may have occurred.

- Monitoring. The effectiveness of NN Leven's risk management itself is also monitored. Regular monitoring ensures that risk management is maintained at all organizational levels of and is carried out by all three lines of defence.

Risk management policies, standards and processes

NN Leven has a comprehensive set of risk management policies, standards and processes in place. These policies, standards and processes are regularly updated to align with industry practices and changes in the business profile, and to comply with applicable laws and regulations. Key areas of risk management for which NN Leven has established policies, standards and processes are set out below.

Risk appetite framework

NN Leven's risk appetite framework determines which risks NN Leven wishes to acquire, avoid, retain and /or remove. The risk limits are derived from the NN Group risk appetite. NN Leven's risk appetite framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. It is determined based on sensitivities of the regulatory capital, the Own Funds and the IFRS earnings.

The risk management framework is based on three key quantative measures that aim to:

- ensure cash capital is sufficient following a 1-in-20 annual risk sensitivity; NN Leven quantifies this using regulatory capital sensitivities and potential capital management actions.

- ensure economic solvency is sufficient following a 1-in-20 annual risk sensitivity; NN Leven quantifies this risk using a measure of available financial resources/economic capital and related sensitivities. NN Leven will further evaluate this risk appetite statement for use under Solvency II during 2015.

- ensure the IFRS net result is sufficient following a 1-in-20 annual risk sensitivity; NN Leven quantifies this risk using sensitivities on the IFRS results after tax.

In addition to the key quantitative statements, qualitative statements form part of the risk appetite framework that serve to guide risk taking for conduct in the areas of underwriting, Asset and Liability management (ALM), investing and operations. These statements support NN Leven's strategy, contribute to avoiding unwanted or excessive risk taking, and aim to further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

- Managing underwriting. Underwriting and product development is paramount to the insurance business. NN Leven strives for easy to understand and transparent value-for-money products that can be effectively risk-managed over the expected life of the contract.
- ALM. NN Leven aims to match its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any mismatches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations.
- Managing investments. NN Leven has an appetite for investments that will provide an appropriate risk – return ratio for policyholders and shareholders.
- Managing operations. Under this category, NN Leven stipulates requirements for managing reputation, business continuity, processes and controls, as well as providing a safe and engaging work environment for a competent workforce.

Risk limits
The quantitative risk appetite statement is translated into quantitative risk limits for NN Leven. NN Leven regularly reports on their risk profile compared to applicable risk appetite and market risk limits.

Risk policy framework
NN Leven risk policy framework ensures that all risks are managed consistently and that NN Leven as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the respective risk committees.

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

New investment class and investment mandate process
NN Leven maintains a New Investment Class Approval and Review Process (NICARP) for approving new investment classes of assets. At the holding level, NN Group establishes a global list of asset classes in which NN Leven may invest. NN Leven maintains a local asset list, which includes asset allocation parameters, which prescribe the relative proportions in which NN Leven may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

Non-financial risks
Operational, compliance, legal and related second order reputation risks are monitored in their mutual relationship as "Non-Financial Risk" (NFR). As non-financial risks are diverse in nature, NN Leven has a framework in place governing the process of identifying, assessing, mitigating, monitoring and reporting non-financial risks. Important elements in this framework are NFR risk assessments, action tracking, key risk indicators, key control registers, incident reporting, NFR Committee and NFR Dashboard.

Own risk and solvency assessment and internal capital adequacy assessment process
NN Leven produces an own risk and solvency assessment (ORSA) at least once a year in preparation for Solvency II requirements. NN Leven is one of the two legal entities addressed in this ORSA. In the ORSA, NN Leven articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether or not its risks and capital are appropriately modelled and how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Leven. Stress testing can also be initiated outside ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). ORSA is concluded by a forward looking overall assessment of the solvency position in line of the risks it holds.

IFRS reserve adequacy test
NN Leven needs to ensure that their IFRS insurance reserves are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. The reserve adequacy test is executed by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin to ensure that the reserves remain adequate based on these assumptions. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets and new money and reinvestment rates in relation to maturing assets.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Model governance and validation

The model governance and validation function seeks to ensure that the models of NN Leven achieve their intended purpose. Models and their disclosed metrics are approved by the NN Leven Model Committee or NN Group Model Committee (MoC). The MoC is responsible for Model Governance policies, procedures, methodologies, models and parameters which are applied. Central models are developed at Group level, but NN Leven is involved in the design through the Model Board and performs a fit-for-local-use assessment to ensure a fit to the NN Leven risk profile.
Furthermore, the model validation function, which is outsourced to NN Group to ensure independence, carries out validations of risk and valuation models, in particular those related to Solvency II. Their approach is documented in a Model Validation policy. Any changes to models that affect risk figures above a certain materiality threshold are presented to the relevant committee by the model governance policy. To ensure independence from the business and other risk departments, the department head reports directly to NN Group's CRO.

Recovery planning

NN Leven has determined a set of measures for early detection of and potential response to a financial or non-financial crisis should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, and allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

Risk profile

Main types of risks

The following principle types of risk are associated with its business:

- Insurance risk. Insurance risks are the risks related to the events insured by NN Leven and comprise actuarial and underwriting risks such as mortality, longevity, and morbidity, which result from the pricing and acceptance of insurance contracts.

- Business risk. Business risks are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.

- Market and credit risk. Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk is the risk of potential losses due to default by debtors (including bond issuers), trading counterparties or mortgage holders. In relation to market and credit risk, NN Leven distinguishes between its own account business and its separate account business.

  - Own account business. The own account businesses are those in which NN Leven directly bears the market and credit risk. A distinction can be made between (i) equity risk, (ii) real estate risk, (iii) interest rate risk, (iv) credit spread risk, (v) credit default risk and (vi) foreign exchange risk.
  - Separate account business. The separate account businesses are those in which the policyholder bears the market and credit risk. In the case of certain products, NN Leven retains the risk associated with the guarantees (both living benefits and death benefits). Businesses in this category are (i) the group pension business, and (ii) the unit linked business.

- Liquidity risk. Liquidity risk is the risk that the entity does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner.

- Operational risk. Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

- Compliance risk. Compliance risk is the risk of impairment of integrity of NN Leven. It is a failure (or perceived failure) to comply with our values and the compliance risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage the reputation of NN Leven and lead to legal or regulatory sanctions and financial loss.

Czech Republic

NN Leven offers insurance products in the Czech Republic. All of these activities and the related risks of these activities are reinsured to NN Re. NN Re deposited collateral with NN Leven to cover the credit risk. Therefore, these activities and relating risks are not included in the remainder of this Risk management note. For the deposits from reinsurers reference is made to Note 16 "Other liabilities".

Economic capital

Economic capital is the internal measurement of the amount of capital required for the risks that NN Leven is exposed to through its balance sheet, its business and its daily operations.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

NN Leven determines the economic capital as the amount of additional assets it must hold above the market value of its liabilities in order to withstand adverse movements in one year, based on a 99.5% level of confidence and before any adjustment for tax impact. A 99.5% level of confidence means that NN Leven would be able to fulfil its obligations to its policyholders without requiring additional capital in 199 out of 200 annual scenarios. The economic capital of NN Leven is calculated in three steps.

- In the first step, NN Leven models the market and credit risks to which the balance sheet is exposed using 50,000 stochastic real-world scenarios over a one-year time horizon, which are calibrated to historically observed market data. The model then quantifies the extent to which the assets must exceed its liabilities to ensure it is able to fulfil its policyholder obligations at a 99.5% level of confidence. This constitutes the economic capital for market and credit risk.

- In the second step, NN Leven models insurance and business risk by defining stress scenarios at a 99.5% confidence interval using empirical data, when available, and expert judgement on the characteristics of the portfolio. With regards to longevity and expense risk, these stress scenarios are measured over a multi-year horizon. Mortality and morbidity risks are measured over a one-year horizon. These measurements are modelled to capture the offsetting of certain risks, which occurs where certain risk events preclude the possibility of others. For example, if risk capital is based on the risk event that people will live longer (longevity risk), then the risk event that the same people will die earlier (mortality risk) is precluded. These risks are also aggregated with each other, as well as with the market and credit risk calculated in step one, using correlations based on expert judgement. As a result of this aggregation, the economic capital for the aggregate risk is less than the sum of the economic capital for the individual risks reflecting the dependencies of risks in a worst case situation of 99.5% quantile. This difference is the diversification benefit, reflecting the benefits of risk pooling. This results in the basic economic capital.

- In the third step, NN Leven adds the economic capital for operational risks in the internal model, without recognising any further diversification benefit. The economic capital for operational risk is based on the draft of the standard formula set out in Solvency II. The basic economic capital is adjusted for the economic capital for operational risk and loss absorbing capacity adjustments.

The economic capital uses, among others, statistics, observed historical market data, insurance policy terms and conditions, and own judgment, expertise and experience, and includes assumptions for the levels and timing of payment of premiums, benefits, claims, expenses, interest rates, credit spreads, investment portfolio performance (including equity market and debt market returns), longevity, mortality, morbidity and customer behaviour (including with respect to surrenders or extensions). NN Leven follows strict governance, periodically revisiting these assumptions and regularly challenging them. As such, the economic capital calculations should be considered as estimates.

The table below sets out the economic capital of NN Leven by risk category as at 31 December 2014 and 2013 on a comparable basis.

Economic capital by risk category

Amounts in millions of euros	2014	2013
Insurance risk	2,498	1,849
Business risk	1,166	913
Market and credit risk:		
– Own account	1,610	1,317
– Separate account	319	573
Diversification benefit between risk categories	-2,246	-2,010
Total modelled risk insurance operations	**3,347**	**2,642**
Operational risk[1]	278	250
Total	**3,625**	**2,892**

1 The operational risk economic capital also considers related compliance risks.

The total pre-tax economic capital for NN Leven increased in 2014 from EUR 2,892 million to EUR 3,625 million. Lower interest rates impact insurance, business and credit risk by decreasing the discount curve of their present valuation.
Within market risk, the main increase is in credit spread risk, equity risk and interest rate risk.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Updates to the economic capital model

In 2014, NN Leven updated its Economic Capital Model to further increase the alignment with its current interpretation of the Solvency II definitions of Own Funds. These include the replacement of the illiquidity premium by a Volatility Adjustment and the inclusion of a 20 year Last Liquid Point (LLP) to determine the liability discount curve. Furthermore, the model was updated using more recent experience data and adjusting for model validation findings.

- The Volatility Adjustment. The Volatility Adjustment, applicable to all insurance companies under Solvency II, is the mechanism applied to the interest rate curve used to discount Own Account liabilities. It is intended to dampen the volatility of Own Funds under Solvency II caused by spread movements on the assets. Because insurance companies hold long-term illiquid liabilities, they can hold assets and are not forced sellers in times of adversity, effectively absorbing short-term volatility. The Volatility Adjustment is applied to the liabilities to help reduce this volatility of short-term spread widening of the asset portfolio. The adjustment level is determined based on spreads in European corporate and sovereign assets, as prescribed by the EIOPA reference portfolio.

- NN Leven previously used an Illiquidity Premium which performed a similar function for the dampening of volatility caused by short-term spread movements. However, the Illiquidity Premium was approximated by a spread of a corporate bond index and was applied only to illiquid cash flows less than 15 years in duration. The Volatility Adjustment decreases NN Leven's credit spread risk more than the Illiquidity Premium for two reasons. Most significantly, the Volatility Adjustment is applied to the entire liability discount curve, while the Illiquidity Premium applied only to the first 15 years of the curve. Including an illiquidity spread to the later part of the liability discount curve is notable for companies like NN Leven, which have long term life insurance liabilities. Also, the composition of the EIOPA reference portfolio is more volatile than the Illiquidity Premium, providing a higher offset for the volatility in spread movements than should occur in the assets.

- The 20 Year Last Liquid Point. The interest rate curve used to discount euro-denominated liabilities for Own Funds has been prescribed by EIOPA as the swap curve up until the 20 year point, and an extrapolated curve thereafter based on an ultimate rate of 4.2%. In the current market interest rate environment, an extrapolation of the curve to a UFR of 4.2% results in a yield curve that is higher than the market risk free swap curve for longer tenors. Previously, NN Leven modelled a 30 year LLP with an extrapolation to a UFR of 4.2%, resulting in a model that discounted assets and liabilities at the same swap rate until 30 years. As NN Leven has a considerable amount of long term liability cash flows, a move to a 20 year LLP increases the mismatch between the asset and liability discounting curves.

- Government Bond Spread Volatility. NN Leven updated its government bond risk methodology to shock all government bonds, excluding those with an AAA rating. Previously, AAA and AA-rated government bonds, as well as home government bonds in local currency, were excluded from shocks (with an exception to shock all Greek bonds). Because NN Leven holds large amounts of AA rated debt from France and Belgium the update to the scope of government bond shocks increased the economic capital held for credit spread risk.

- Other Model Updates. Other model updates in 2014 include updates to the market and non-market correlation matrices and updates to the modelling of credit spread risk, equity risk, interest rate risk, and the non-market risks. The four most impactful model updates in 2014 include:

  - Equity Models. The EC model for equity risk was updated to reflect a distribution of shocks which are lower in less extreme scenarios and higher in more extreme scenario. Moreover, equity shocks are now calculated to more accurately reflect the securities portfolio that NN Leven holds. Both these factors decreased the Economic Capital held for equity risk.

  - Credit Spread Models. In addition to the change in government bond modelling, NN Leven also updated its calculations for the correlations between different types of market risk, which partially offset the increase in credit spread risk.

  - Non-Market risk correlation. An update to the calculated correlations between non-market risks affects the amount of diversification assumed between risk categories. In particular, expense risk correlations with mortality and calamity were adjusted downwards, increasing the diversification, and therefore decreasing the total EC NN Leven holds.

  - Life Trend uncertainty model. The main risk driver is the life risk which models the trend uncertainty of the Dutch mortality development. This model incorporates a multi-year approach to ensure a forward looking approach.

The economic capital numbers reported in the 2013 Annual Report have been restated to reflect the changes listed above.

Economic capital 2013 comparable to 2014

Amounts in millions of euros	**2013**
As reported for NN Leven	3,662
Changes related to liability discount curve, the Volatility Adjustment and the 20Y LLP	-321
Other modelling adjustments	-449
Economic capital for 2013 for NN Leven	**2,892**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

The largest impact in Other modelling adjustments is due to a new non-market risk correlation matrix, which assumes a lower correlation between expense risk versus mortality and calamity risks (EUR -240 million). Furthermore the models for market risk and life trend uncertainty were updated, the first leading to a decrease of approximately EUR 190 million and the second to an increase of approximately EUR 180 million.
The following sections will explain the risk profile, risk mitigation and risk measurement of all the categories above except for the diversification benefits between the different risk categories. Diversification benefits are recognised both on the risk category level (reflecting, for instance, diversification benefits between different risks within a particular risk category), as well as diversification benefits between risk categories.

Insurance risk

Insurance risks comprise actuarial and underwriting risks such as longevity, mortality and morbidity risks, which result from the pricing and acceptance of insurance contracts.

Risk profile

Taking and managing insurance risks is core to the business proposition of NN Leven. Longevity risk is the risk that insured persons live longer than expected due to mortality improvements. Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). While NN Leven is exposed to both longevity and mortality risks, these risks do not offset one another completely as the impact of the longevity risks in the pension business is significantly larger than the mortality risk, not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like Own funds and economic capital. Longevity risk exposes NN Leven primarily to mortality improvements and the present value impact is larger when interest rates are low. Morbidity risk is related to disability insurance products, that pay out fixed amount or reimburses losses (e.g. loss of income) related to a certain event or certain illness or disability. Morbidity risk is of marginal importance, as the disability products are only sold as riders to life insurance policies.

Risk mitigation

Proper pricing, underwriting, and diversification are the main risk mitigating actions for insurance risks.
By expanding insurance liabilities to cover multiple product benefits and lengths of contract, NN Leven reduces the likelihood that a single risk event will have a material impact on the financial condition.
Management of the insurance risks is done at contract level by ensuring that the terms and conditions of the insurance policies that NN Leven underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through underwriting standards, product design requirements, contract renewal processes (in particular with regards to converting the separate account group pension business to defined contribution contracts), and product approval and review processes.

Insurance risks are diversified with other risk components. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

- tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics;
- reinsurance is used to manage risk levels. Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Group;
- NN Leven participates in the 'Nederlandse Herverzekeringsmaatschappij voor Terrorismeschade' to mitigate the risk from terrorism.

Risk measurement

The table below sets out the economic capital for insurance risk as at 31 December 2014 and 2013, respectively.

Economic capital for insurance risk

Amounts in millions of euros	2014	2013
Mortality risk (including longevity)	2,498	1,848
Morbidity risk	35	34
Diversification benefit	-35	-33
Total	**2,498**	**1,849**

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

The economic capital for insurance risks is dominated by life risk, in particular by longevity risk in the pension business.
The economic capital amount related to longevity risk is highly sensitive to the level of interest rates due to discounting of future obligations and therefore lower interest rates lead to a higher present value of future benefits and correspondingly a higher economic capital, and vice versa.

For Morbidity risk there are no significant changes between 2013 and 2014 in portfolio or risk profile, which results in a similar result.

Business risk

Business risks are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk is driven by the possibility that experience differs adversely from expectations with respect to policyholder behaviour and expenses. Business risks can occur because of internal, industry, or wider market factors. Business risk is the risk inherent in conducting day-to-day business and internal efficiency, and as such strategic risk is included in business risk.

Risk Profile

Policyholder behaviour risk

Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from what is expected by NN Leven. Depending on the terms and conditions of the insurance policy and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. As a result, over the life of an insurance policy, a policyholder may seek to change the terms of that policy, and NN Leven may consult with the customer with a view to verify that the relevant policy remains suitable for the policyholder, sometimes resulting in changes to that insurance policy. Policyholder behaviour therefore may affect the profitability of the insurance contracts. Changes in tax laws and regulations can also affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers. A change in policyholder behaviour assumptions would result in an immediate change in the present value of the liabilities used to determine Own Funds. The economic capital calculations for policyholder behaviour risk take into account the present value impact of changes in assumptions.

Expense risk

Total administrative expenses for NN Leven in 2014 amounted to EUR 392 million. Part of these expenses is variable, depending on the size of the business and sales volumes, and part is fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of the expenses, and is the risk that actual per policy expenses in the future exceed the assumed per policy expenses. A significant portion of the fixed expenses is incurred in the closed block operations, where NN Leven is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase. Increases in future per policy maintenance expense will have large present value impact due to the long term nature of these liabilities. A change in expense risk assumptions, though it would be reflected over time through IFRS result before tax, would result in an immediate change in the present value of the liabilities used to determine Own Funds and available regulatory capital. Estimated future expenses are based, amongst others, upon best estimate assumptions for inflation. Because changes in these assumptions affect the Own Funds of NN Leven, expense risk includes capital for unexpected changes in cost inflation.

Risk mitigation

Policyholder behaviour risk

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

As part of its strategy, NN Leven has put several programmes in place to improve the customer experience. These programmes seek to improve the match between customer needs and the benefits and options provided by the products and, over time, to improve the understanding and anticipation of the choices policyholders are likely to make, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Expense risk

Several business improvement initiatives have been put in place to manage expenses and evidence of reduced expenses can be seen in many parts of the business. These initiatives also seek to make expenses variable in such a way that the expense level is linked to the level of volumes. This is particularly relevant for the individual life closed blocks of business, where fixed costs of administration systems might need to be carried by a gradually decreasing size of the business.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Risk measurement

The table below sets out the economic capital requirement for business risk as at 31 December 2014 and 2013, respectively.

Economic capital requirement for business risk

Amounts in millions of euros	2014	2013
Policyholder behaviour risk	226	264
Expense risk	1,142	873
Diversification benefit	-202	-224
Total	**1,166**	**913**

The decrease in persistency risk is mainly caused by updated assumptions and the implementation of new persistency risk models. The increase in the economic capital amount related to expense risk is primarily attributable to the decrease of the discount curve in 2014, together with an update of the expense risk model that includes higher shocks for the different expense components.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated and therefore receive a benefit given the low likelihood that they will both occur concurrently.

Market and credit risk: own account

Market and credit risks are the risks related to the impact of financial markets on the balance sheet of NN Leven. In relation to market and credit risk, NN Leven distinguishes between its Own Account and its Separate account. The table below sets out the asset class market values of NN Leven for the own account as at 31 December 2014 and 2013 (in this table derivatives are excluded and specific risk management asset classifications and valuations are applied). The 2013 figures are on a comparable basis to 2014[1].

Own Account Assets

Amounts in millions of euros	Market value 2014	% of total 2014	Market value 2013	% of total 2013
Fixed income	**56,535**	**85.7%**	**46,957**	**83.4%**
Government bonds	34,415	52.2%	26,537	47.1%
Government loans	524	0.8%	274	0.5%
Financial bonds	1,350	2.0%	1,354	2.4%
Financial loans	622	0.9%	536	1.0%
Corporate bonds	3,259	5.0%	2,448	4.3%
Corporate loans	2,522	3.8%	1,322	2.4%
Asset-backed securities	5,012	7.6%	6,362	11.3%
Mortgage loans	8,717	13.2%	7,990	14.2%
Other retail loans	114	0.2%	134	0.2%
Non-Fixed income	**9,281**	**14.1%**	**8,391**	**14.9%**
Common & preferred stock	2,563	3.9%	2,073	3.7%
Private equity	827	1.3%	798	1.4%
Real estate	4,024	6.1%	4,175	7.4%
Mutual funds	1,867	2.8%	1,345	2.4%
Cash[2]	**173**	**0.2%**	**980**	**1.7%**
Total investments	**65,989**	**100%**	**56,328**	**100%**

2 Money market mutual funds are included in Cash.

The economic capital for the fixed income bonds is calculated within spread risk and the economic capital for the fixed income loans (to the extent applicable) within counterparty default risk. For the non-fixed income assets, equity and real estate, NN Leven uses asset-specific risks to calculate the economic capital.

1 With the exception of the reclassification of Q-Park, as explained in the paragraph 'real estate risk'.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

The table below sets out the economic capital of NN Leven for the market risks for the own account as at 31 December 2014 and 2013, respectively.

Economic capital own account

Amounts in millions of euros	2014	2013
Equity risk	1,315	946
Real estate risk	542	558
Interest rate risk	1,102	959
Credit spread risk including Volatility Adjustment	1,289	1,053
Foreign exchange risk	46	30
Inflation risk	51	52
Counterparty default risk	589	491
Diversification	-3,324	-2,836
Total	**1,610**	**1,253**

Market and credit risk of the own account is dominated by credit spread risk, interest rate risk and equity risk. The increase in equity risk was due to equity market appreciation and net purchases. The increase in credit spread risk is caused by an increase of the fixed income bond portfolio. The diversification benefit is significantly driven by the Volatility Adjustment, as the effects of the Volatility Adjustment negatively correlate with spread risk, and also with equity and real estate risks.
The following sections provide more detail per risk type.

Equity risk

Equity risk in the own account is due to impact of changes in prices of directly held equities and equity derivatives such as futures and options.

Risk profile

The table below sets out the own account equity assets of NN Leven as at 31 December 2014 and 2013, respectively.

Own accounts equity assets

Amounts in millions of euros	2014	2013
Common & Preferred Stock	2,563	2,073
Private Equity	827	798
Mutual Funds	1,867	1,345
Total	**5,257**	**4,216**

Overall equity exposure increased due to favourable markets and net purchases of equities in line with the strategic asset allocation.

The equity investments held include the so-called “5% holdings”, in which investors who hold 5% or more of the outstanding shares of a stock receive favourable tax treatment in the Netherlands. About EUR 2.0 billion is invested in these 5% holdings. For these equity investments, NN Leven may not be able to liquidate its position quickly because of the size of these holdings.

NN Leven invests in private equity through its holding of Parcom Capital Management, a captive mid-market private equity firm.

The private equity includes an indirect stake of approximately 10% in ING Life Korea, which became part of NN Leven’s equity assets in 2013, when ING Life Korea was sold and a small part of it was retained by ING Insurance. The market value of this part was EUR 160 million at year-end 2014.

Risk mitigation

Equity exposures belong to a well-diversified asset portfolio of an insurance company with long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement

Economic capital for equity risk in the own account increased from EUR 946 million in 2013 to EUR 1,315 million in 2014 due to equity market appreciation and net purchases.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Real estate risk

Real estate risk is the risk of loss of market value of real estate assets due to a change in rental prices, required investor yield, or other factors.

Risk profile

The own account real estate exposure of NN Leven decreased from EUR 4,175 million at 31 December 2013 to EUR 4,024 million as at 31 December 2014. The main cause of this decrease is the reclassification of Q-Park. The real estate exposure in Q-Park is no longer included in real estate assets. Instead, since 2014 the net asset value is reported as private equity. The real estate exposure consists of investments in several real estate funds and real estate directly owned. The exposure in real estate funds implies also an indirect exposure. A decrease in real estate prices will cause the value of the capital invested to decrease and as such NN Leven is exposed to real estate price shocks. The first category distinguishes stakes in real estate assets that are revalued through equity and stakes in funds and direct real estate revalued through the consolidated income statement. Only for the last category real estate price shocks may have a direct impact on results of operations.

The own account real estate portfolio is held for the long term and is illiquid. Furthermore there are no hedge instruments available in the market to effectively reduce the impact of market volatility.

The table below sets out the real estate exposure of NN Leven by sector type excluding leverage as at 31 December 2014 and 2013, respectively. Real estate is valued at fair value in the economic capital model and the available regulatory capital calculations. During 2014 NN Leven redeemed its share in several real estate funds and re-invested the proceeds in direct real estate exposure, resulting in a shift from real estate exposure 'valued through equity' to 'valued through P&L'.

Own Account real estate assets by sector

	Revalued through P&L 2014	Not revalued through P&L 2014	Revalued through P&L 2013	Not revalued through P&L 2013
Residential	2%	14%	3%	17%
Office	16%	2%	10%	9%
Retail	36%	9%	30%	9%
Industrial	14%	0%	9%	0%
Other	1%	6%	2%	11%
Total	**69%**	**31%**	**54%**	**46%**

Real estate exposures, like equity investments, belong to a well-diversified asset portfolio of an insurance company holding long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement

Economic capital for real estate risk changed from EUR 558 million at year-end 2013 to EUR 542 million at year-end 2014, mainly caused by the reclassification of the Q-Park portfolio from real estate to private equity. Besides this change, the economic capital for this risk remained stable as the real estate exposure did not change significantly.

Interest rate risk

Interest rate risk is the impact of interest rate changes on Own Funds as a result of the associated change in the value of the assets and liabilities. NN Leven generally uses swap curves as benchmark interest rate curves when assessing interest rate risk.

Risk profile

The table below provides an overview of NN Leven own account undiscounted best estimate policyholder liability cash flows (net of expenses and commissions) by maturity. This provides insight mostly into the duration of the liabilities which is relevant for asset allocation and is incorporated in economic capital calculations.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Liabilities' annual undiscounted cash flows (net of expenses and commissions)[1]

Amounts in millions of euros	2014	2013
Maturities		
1	-1,592	-2,828
2	-2,680	-2,410
3	-4,484	-3,790
3-5	-4,990	-4,864
5-10	-12,093	-11,331
10-20	-20,987	-20,532
20-30	-14,020	-14,118
30+	-13,431	-13,915
Total	**-74,277**	**-73,788**

1 The "minus" sign in the table means cash outflow from NN Leven.

To effectively match its assets to liabilities, NN Leven looks at the undiscounted liability cash flows and then determines which assets to purchase to reduce interest rate risk. As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows, which primarily relate to the pension business.

Liability valuations depend on the discount rate applied and are sensitive to movements in that discount rate, particularly given that approximately one third of the liability cash outflows occurs from year 20.

- IFRS result before tax. NN Leven values its own account policyholder liabilities using a discount rate that is set when the policies are sold, and subjects them to a reserve adequacy test using current interest rates. NN Leven values its own account policyholder liabilities using a discount rate that is set when the policies are sold, and subjects them to a reserve adequacy test using current interest rates. As a result, changes in interest rates do not affect IFRS earnings through liability valuations, as long as the adequacy of the reserves remains above the 90th percentile level. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded as amortised cost value. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates.

- Available regulatory capital. For the purposes of available regulatory capital from the Solvency I perspective, own account policyholder liabilities are measured at fair market value based on the DNB swap curve. Since mid-2012, the DNB curve has been adjusted to include an ultimate forward rate (UFR), extrapolating the curves beginning in year 20 to UFR of 4.2% at year 60. Own account fixed income assets are held at market value, thereby creating mismatches in the interest rate sensitivities for assets and liabilities and thus in the available regulatory capital due to the application of the UFR.

- Economic capital. To determine Own Funds, NN Leven uses a swap curve minus a credit risk adjustment plus a Volatility Adjustment to discount the insurance liabilities. The Volatility Adjustment is treated as part of the credit spread risk. NN Leven extrapolates the swap curve including the aforementioned curve adjustments from the 20 year point onwards to the UFR. To determine economic capital, all assets are valued at market value. The economic capital for interest rate risk therefore primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the swap curve including curve adjustments extrapolated to the UFR for longer cash flows.

Risk mitigation
NN Leven hedges its economic interest rate exposure by investing in long-term bonds matching liability maturities and further reduces the remaining interest rate gap – if needed – through purchases of for example derivatives such as receiver swaps and swaptions. Interest rate risk is also mitigated through a disciplined pricing and renewal strategy in the pensions business.

Risk measurement
The own account portfolio of NN Leven is sensitive for an interest rate shock upwards instead of an interest rate shock downwards. This is due to the UFR effect of the liability valuation curve: where economically there is a duration shortage between assets and liabilities, based on the valuation curve for economic capital there is a duration surplus.
During 2014, interest rates have declined by over 100 bps. As a consequence, interest rate sensitivity of both the assets and liabilities has increased. Due to the dampening UFR effect on the liability side, the interest rate sensitivity of assets shows a larger increase than for the liabilities, resulting in a larger mismatch in interest rate sensitivity, and thus resulting in a EUR 143 million higher interest rate risk.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening due to increased default expectation, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the volatility adjustment on the own account liabilities.

Risk profile

The nature of long-term insurance liabilities gives insurers the potential to hold fixed income assets even in adverse market conditions, thereby continuing to receive the coupons and the principal amount at maturity. Credit spread risk materialises in different ways depending on the different valuation curves used to discount assets and liabilities in order to determine these metrics.

- IFRS result before tax. Market value movements of own account fixed income assets do not normally impact the IFRS result before tax, as the assets are classified as available-for-sale. Therefore, there is no sensitivity to credit spread risk in IFRS result before tax. However fixed income securities might be subject to impairments under IFRS, which would affect the IFRS result before tax.

- Available regulatory capital. On the regulatory capital balance sheet, own account fixed income assets are held at market value, thereby creating credit spread sensitivities in the available regulatory capital. The long duration of fixed income assets amplifies the impact of credit spread sensitivities. By contrast, the liabilities are not sensitive to credit spread movements under Solvency I.

- Economic capital. To determine Own Funds, own account fixed income assets are held at market value, thereby creating credit spread sensitivities. Just as in the available regulatory capital, the long duration of the fixed income assets amplifies the impact of credit spread sensitivities for economic capital. In order to reflect the illiquidity of the liabilities, the discount rate to value the insurance liabilities consists of the swap rate minus credit risk adjustment plus a Volatility Adjustment prescribed by EIOPA for Solvency II. There can be mismatches between spreads experienced on the assets of NN Leven and the spreads depicted by the Volatility Adjustment. The EIOPA reference portfolio to determine the Volatility Adjustment is a diversified portfolio of corporate and government bonds, with an average duration of 5 years and applies equally across the liability discount curve. The long term investments held by NN Leven are primarily government bonds, causing mismatches between spread movements in the portfolio of NN Leven and the Volatility Adjustment portfolio. The long term nature of the business amplifies the impact of the spread mismatches.

The table below sets out the market value of the own account fixed-income bonds of NN Leven which are subject to credit spread risk by type of issuer at 31 December 2014 and 2013, respectively.

Own account fixed-income bonds by type of issuer

Amounts in millions of euros	Market value 2014	% of total 2014	Market value 2013	% of total 2013
Government bonds	34,415	78.2%	26,537	72.3%
Asset-backed securities	5,012	11.4%	6,362	17.3%
Financial institutions	1,350	3.1%	1,354	3.7%
Utilities	810	1.8%	730	2.0%
Telecom, media & technology	617	1.4%	429	1.2%
Food, beverages & personal care	429	1.0%	214	0.6%
Chemicals, health & pharmaceuticals	305	0.7%	265	0.7%
Natural resources	280	0.6%	225	0.6%
Other	818	1.8%	585	1.6%
Total	**44,036**	**100%**	**36,701**	**100%**

NN Leven primarily uses long-term bonds issued by central governments and other public agencies of governments to match its long term liabilities as such bonds are amongst the few tradable fixed income securities generating cash flows for 20 years and longer. The table below sets out the market value of the own account assets invested in government bonds by country.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Own account market value government bond exposures

Amounts in millions of euros	Rating[1]	2014	2013
Germany	AAA	9,024	7,413
Netherlands	AAA	7,213	5,473
France	AA+	6,260	4,481
Austria	AAA	3,950	3,133
Belgium	AA	3,292	2,396
Finland	AAA	1,021	859
European Union	AAA	1,005	832
Italy	BBB	786	641
Spain	BBB–	416	288
United Kingdom	AA+	352	295
Poland	A–	270	231
Other		826	495
Total		**34,415**	**26,537**

1 NN Leven uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.

In 2013 and 2014, NN Leven began reducing its German and Dutch government bond positions to invest in higher-yielding asset classes. Nevertheless, the market value of those government bonds increased because of lower interest rates compared to 2013.

In the Economic capital model, all government bonds receive credit spread charges, except those rated AAA. This reflects the idea that NN Leven does not have to hold Economic Capital for the AAA government bonds, even though spreads of these bonds temporarily vary over time as such bonds are safe havens in times of distress and are used to cash flow match the liabilities.

The table below sets out the own account market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating. The AAA securities are primarily asset-backed securities.

Own account market value non-government fixed income securities

Amounts in millions of euros	2014	2013
AAA	5,369	6,533
AA	1,830	1,308
A	2,648	1,914
BBB	2,291	1,733
BB	290	228
B	28	48
CCC	310	257
Total	**12,766**	**12,021**

The exposure to non-government fixed income securities increased due to tightened spreads and decreased interest rates.

The table below sets out the holdings of asset-backed securities by market value of asset type and the percentage of the total own account asset-backed securities portfolio as at 31 December 2014 and 2013, respectively.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Own account asset-backed securities

Amounts in millions of euros	Market value 2014	% of total 2014	Market value 2013	% of total 2013
RMBS	3,217	64%	3,336	52%
Car loans	815	16%	1,711	27%
Credit cards	317	6%	414	7%
CMBS	319	6%	343	5%
Student loans	178	4%	180	3%
Equipment loans	83	2%	88	1%
Consumer loans	57	1%	102	2%
SME loans	26	1%	188	3%
Total	**5,012**	**100%**	**6,362**	**100%**

Risk mitigation

NN Leven aims to maintain a low-risk, well diversified fixed income portfolio. NN Leven has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN Leven has increased its investments in non-listed and own-originated assets. Going forward, the volatility in the credit spread risk will continue to have possible short-term negative effects on the balance sheet. However, in the long run, these investments will back the long-dated and illiquid liabilities well. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement

The economic capital for credit spread risk reflects, with 99.5% level of confidence, the maximum amount of capital needed to absorb the impact of spreads widening. Credit spreads are stressed depending on the assets with regard to the credit rating, duration, and region, to determine the economic capital for spread risk. Furthermore, the Volatility Adjustment on the liabilities is stressed simultaneously to dampen the impact of credit spread.

The table below sets out the own account economic capital for credit spread risk.

Own account economic capital for credit spread risk

Amounts in millions of euros	2014	2013
Credit spread risk assets	3,551	2,501
Impact of Volatility Adjustment Offset on Liabilities	-2,211	-1,386
Total Credit Spread risk net of Volatility Adjustment	**1,340**	**1,115**

The increase of economic capital for credit spread risk assets by EUR 1.0 billion is mainly caused by an increased market value of the spread-sensitive fixed income portfolio, especially French, Belgian and Italian bonds. In its turn, the increase in market value is attributable to the decrease of interest rates during 2014 and tightened spreads. This increase was largely offset by the increased impact of the volatility adjustment, also caused by decreased interest rates.

Counterparty Default Risk

Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Leven. The economic capital for counterparty default risk is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets. Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Risk profile

Counterparty default risk arising from residential mortgages represents the majority of the portfolio of economic capital for counterparty default risk.
Within NN Leven, the goal is to maintain a low-risk, well diversified credit portfolio that meets or exceeds market based returns. NN Leven has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations.

Loans form a relatively small source of credit risk for NN Leven (as compared to bonds). Other sources of credit risk include the claims on counterparties from over-the-counter derivatives, money market exposures and reinsurance.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Own account mortgages, reinsurance and loans and advances

Amounts in millions of euros	2014	2013
Mortgages	8,717	7,990
All Other Loans	3,782	2,266
Reinsurance	86	83
Cash	173	980
Total	**12,758**	**11,319**

NN Leven has notably increased its exposure to Dutch residential mortgages during the course of 2014. As of 31 December 2014, the total own account risk exposure to mortgages is EUR 8.7 billion.

As of 2014, NN Leven participates in Commercial Real Estate Loans initiated by ING Bank. These participations, with a nominal value at year-end 2014 of EUR 381 million, are based on a deal-by deal assessment and consist both of existing deals and new origination.

Risk mitigation

NN Leven uses different credit risk mitigation techniques. For retail lending portfolios, mortgages on the house, pledges of insurance policies, or retaining the investment accounts of clients are all important elements of credit risk mitigation. For OTC derivatives, the use of ISDA master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average indexed loan to value, stands at 89%. The perceived high LTV is due to the high proportion of interest-only mortgages. With the change in the tax regime in 2013 with regards to mortgage interest deductibility, a shift from essentially interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG account for 20% of the portfolio at 31 December 2014.

The credit portfolio is under constant review to ensure troubled assets are identified early and managed properly. With regards to (mortgage) loans, all loans with past due financial obligations of 90 days or more are classified as non-performing loans (NPLs). All loans not classified at initial recognition as being either (1) assets at market value through profit-and-loss, (2) assets held for trading, or (3) assets available-for-sale are measured against amortised cost value and are subject to impairment review. For bonds and other fixed income securities, criteria for impairment include (but are not limited to) expected and actual credit losses resulting from e.g. failure to pay, market information regarding expected and actual credit losses, as well as other evidence that the issuer/borrower will be unable to meet its financial obligations. Material breaches in financial covenants can also trigger the reclassification of a loan as being impaired.

Credit quality: NN Leven mortgage loan portfolio

Amounts in millions of euros	2014	2013
Performing mortgage loans	8,550	7,889
Non-performing mortgage loans	167	101
Total	**8,717**	**7,990**

If a payment of interest or principal is more than one day late, the loan is considered "past-due". If the arrear still exists after 90 days, the loan is categorised as non-performing loan. A loan is re-categorised as a performing loan again when the amount past due has been paid.

The increase in non-performing loans is mostly due to the overall growth of the mortgage portfolio and a delayed effect of the economic recession on the mortgage paying ability of households.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Aging analysis (past due but not impaired): NN Leven mortgage portfolio, outstanding

Amounts in millions of euros	2014	2013
Past due for 1–30 days	133	123
Past due for 31–60 days	36	42
Past due for 61–90 days	16	19
Past due more than 90 days	84	37
Total	**269**	**221**

Risk measurement
Economic capital for counterparty default risk increased from EUR 491 million at year-end 2013 to EUR 589 million at year-end 2014. This increase is mainly due to the increased residential mortgage portfolio, as well as the inclusion of counterparty default risk for ING Bank exposures that were previously considered as intracompany. As noted, related economic capital for fixed income bonds is fully included in credit spread risk.

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

Risk profile
FX transaction risk can occur when items included in the financial statements are measured using the country's functional currency instead of the Euro.

Risk mitigation
The FX risk is mitigated by hedging the FX risk in liabilities that are sensitive to changes in FX rates and by limiting investment in non-euro-denominated assets. As a result of this, FX risk marginally contributes to the economic capital of NN Leven.

Risk measurement
Economic capital for foreign exchange risk increased from EUR 30 million at year-end 2013 to EUR 46 million at year-end 2014, foremost caused by the higher Korean Won exposure in the Dasan Equity fund.

Market and credit risk: separate account
The separate account businesses are those in which the policyholder bears the majority of the market and credit risk. The earnings of NN Leven from the separate account businesses are primarily driven by fee income. However, in the guaranteed separate account pension business, NN Leven retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the group pension business for which guarantees are provided, and (ii) other separate account business, primarily the unit linked business.

Separate account guaranteed group pension business
Risk profile

Separate account guaranteed group pension business

Amounts in millions of euros	2014	2013
Account value	10,695	10,858
Additional IFRS reserve for guarantee	723	606

The sponsor employer selects the investments based on a basket of equity and fixed income instruments and real estate and pays a fee for the guarantee. The value of the guarantee that NN Leven provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

Over the course of 2014, more than EUR 2 billion in account value of the pension business has been transferred from the Separate Account to the Own Account. However, decreasing interest increased the value of the asset portfolio significantly. Therefore, account values were similar at 31 December 2014 to 31 December 2013.

Risk mitigation
NN Leven currently hedges the value of the guarantees it provides under group pension contracts. For this purpose, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge programme includes equity basket options, swaps and equity futures. Upon contract renewal, NN Leven offers policyholders defined contribution products with investments in portfolios that NN Leven can hedge more easily, thus reducing the risk to NN Leven.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Other separate account business

Risk profile

The other separate account business primarily consists of unit linked insurance policies, which provide policyholders with fund selection combined with an insurance cover. In a unit linked policy, the investment risk is borne by the policyholder, although there are some unit linked products where NN Leven has provided guarantees on the performance of specific underlying funds. Unit linked products without guarantees do not expose NN Leven to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds.

Risk mitigation

The market risks of the unit linked and other separate account business are managed at the design of the product. Currently NN Leven does not hedge the market risks related to the present value of future fee income derived from this business.

Risk measurement

NN Leven determines economic capital for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

The table below sets out the economic capital for the market and credit risk of the separate account businesses as at 31 December 2014 and 2013, respectively.

Economic capital for the separate account businesses

Amounts in millions of euros	**2014**	**2013**
Separate account guaranteed group pension business	359	536
Other separate account business (unit linked)	93	145
Diversification benefit	-133	-108
Total	**319**	**573**

The decrease in economic capital in the group pension business was caused by contracts moving from the separate account to the own account. Lower interest rates resulted in lower impact of shocks on the present value of the fee income for the other separate account business (unit-linked).

Liquidity risk

Liquidity risk is the risk that NN Leven does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due.

Risk Profile

NN Leven identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk (primary) is risk that a company will not have the funds to meet its financial obligations when due. Market liquidity risk (secondary) is the risk that an asset cannot be sold without significant losses. The connection between market and funding liquidity stems from the fact that when payments are due, and not enough cash is available, investment positions need to be converted into cash. When market liquidity is low, this would lead to a loss.

Risk mitigation

The Liquidity Management Principles of NN Leven include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities; and
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

NN Leven defines three levels of Liquidity Management. Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. Two types of liquidity crisis events can be distinguished: a market event and an NN Leven specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. No specific risk capital is held for liquidity risk.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Operational risk

Risk profile

Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.
The operational risk management areas can be defined as given below:

- Control and processing risk: the risk due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing.
- Fraud risk: the risk of loss due to abuse of procedures, systems, assets, products or services of NN Leven by those who intend to unlawfully benefit themselves or others.
- Information (technology) risk: the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability.
- Continuity and security risk: the risk of threats that might endanger the continuity of business operations and the security of our employees.
- Unauthorised activity risk: the risk of misuse of procedures, systems, assets, products and services.
- Employment practise risk: the risk of loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events.

Risk mitigation

For operational risk NN Leven has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. Operational risk assessments are done not only based on historic data but also on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.
Mitigation of operational risks can be preventive in nature (e.g. training and education of employees, preventive controls) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risks mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

NN Leven conducts regular operational risk and control monitoring to measure and evaluate the effectiveness of the key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. Operational risks are monitored through the non-financial risk dashboard (NFRD) process at all levels in the organisation. The NFRD is one tool which provides management at all organisational levels with information about key operational, compliance and legal risks and incidents. The exposure of NN Group to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Leven's risks and controls.

Risk measurement

The economic capital for operational risk was EUR 278 million as at 31 December 2014 (2013: EUR 250 million). The economic capital is calculated based on the standard formula for Solvency II. As it is additive to the Basic economic capital, it should be considered as net of diversification with other risks of NN Leven.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Compliance risk

Risk Profile

NN Leven works in accordance with the three core values: care, clear, commit. These Values set the standard for conduct and provide a compass for decision making. Further, NN Leven is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards. All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for ensuring this. NN Leven continuously enhances its compliance risk management programme to ensure that NN Leven complies with international standards and laws.

Risk mitigation

NN Leven separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. In addition to effective reporting systems, NN Leven has a whistle blower procedure which protects and encourages staff to "speak up" if they know of or suspect a breach of external regulations, internal policies or corporate values. NN Leven also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, confidential and inside information, as well as a code of conduct for its personnel.

NN Leven performs a product review process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current product offerings. The compliance function and the business work closely together to optimise both products and services to meet the customer's needs.

45 Capital management

Objective

Capital Management involves the management, planning and execution of transactions involving the capital position of NN Leven.

NN Leven uses the regulatory capital as the most important measure for its capital position. NN Leven is a Dutch life insurance company and is therefore supervised by the Dutch regulator i.e. DNB. The supervision takes place based on rules and regulations, as defined in the Wet op het financieel toezicht (Wft) and further DNB guidelines. The basis for the available regulatory capital reporting is IFRS accounting, adjusted for a test of adequacy and some further corrections, as have been set in Wft and DNB regulations. The capital requirements are based on EU directives that are translated into local regulations.

NN Leven performs a test of adequacy on its technical provisions based on DNB regulations, which include the discount curve to be used. NN Leven uses the swap curve provided by DNB as basis for valuation in the test of adequacy. The discount curve makes use of a UFR mechanism converging from year 20 over a period of 40 years to a so-called Ultimate Forward Rate (UFR) of 4.2%. DNB has granted NN Leven the right to use a surplus in the test of adequacy when calculating its regulatory solvency level. However, the test of adequacy shows a deficit, which has resulted in a lower capital ratio.

During 2014 NN Leven targeted a capital position between the requirement as set by the Theoretisch Solvabiliteitscriterium (TSC) and 250% of the Wft solvency requirement.

In setting the proposals for dividends, the targeted capital position is key. However, other considerations on the capitalisation for NN Leven are also taken into account. These will include the stability of the dividends through time, as well as specific market circumstances that could have influenced the solvency ratio. The future capitalisation under Solvency II will be also part of the considerations.

Regulatory developments

On 1 January 2014, in anticipation of the more risk-based approach under Solvency II, the Dutch legislator has, inter alia, subjected Dutch life insurance companies to the TSC (also known as "Solvency 1.5"), which reflects a minimum solvency margin required in certain stress scenarios. If the solvency position of NN Leven would be below the TSC, a declaration of no objection from DNB would be required before making any distributions of capital (including dividends) and reserves. DNB would also be entitled to require that the relevant entity submits a recovery plan. In determining whether to give the approval to permit distributions, DNB should be satisfied that the life insurance company will have sufficient available regulatory capital for at least the following 12 months. However, following the publication by the Dutch Minister of Finance in March 2014 of a legislative proposal, the TSC was consequently removed as of 1 January 2015, in anticipation of Solvency II. The reason for the removal of the TSC is that for the distribution of dividends an insurance company must look forward 12 months. As such, from 1 January 2015, an insurance company will have to assess whether or not it will comply with the Solvency II requirements, which are currently expected to apply from 1 January 2016.

Processes for managing capital

Capital management takes place within the framework set by the NN Group Management Board for its subsidiaries on the basis of policy documents, guidelines and procedures.

NN Leven does not perform capital market transactions outside NN Group. Within NN Group, the capitalisation of subsidiaries is monitored by NN Group Capital Management.

Notes to the Consolidated annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Capital adequacy assessment

NN Leven is adequately capitalised, and all regulatory solvency requirements were met throughout 2014.

NN Leven's solvency ratio at the end of 2014 is 258% (2013: 223%).

Capitalisation and ratios

	2014	2013
Equity at the end of the year	13,975,958	9,312,433
Adjustments to equity:		
– Revaluation reserve for derivatives	-2,506,790	-1,460,915
– Intangible assets (after taxation)	-5,055	-9,044
– Undated subordinated loan	450,000	
– Subordinated debt	600,000	
– Capital distribution in the first quarter of 2015	-350,000	
– Surplus/deficit in adequacy test (+/–)	-4,486,231	-1,966,838
Capital available for financial supervision purposes	**7,677,882**	**5,875,636**
Solvency required for financial supervision purposes	2,979,812	2,629,288
Ratios	258%	223%

Main events in 2014

In February 2014 a EUR 600 million dated subordinated loan was issued by NN Leven to ING Verzekeringen N.V. (now NN Group N.V.). The loan bears a fixed rate coupon for ten years until February 2024. Afterwards, the interest rate will be the three month floating interest rate plus a fixed spread. The maturity is in 2044. As of February 2024 the loan can be redeemed at par at the discretion of NN Leven. All payments on the loan are subject to certain regulatory requirements being met. The subordinated loan is eligible to cover the solvency requirements in accordance with the Wft. The loan is included in the "Capital available for financial supervision purposes".

In May 2014 a EUR 450 million subordinated loan was issued by NN Leven to NN Group The loan bears a fixed rate coupon until May 2024. Afterwards, the interest rate will be reset every ten years at a fixed interest rate based on interest rate swaps plus a fixed spread. The loan has no fixed maturity date. As of May 2019 the loan can be redeemed at par at the discretion of NN Leven. All payments on the loan are subject to certain regulatory requirements being met. The subordinated loan is eligible to cover the solvency requirements in accordance with the Wft. The loan is included in the "Capital available for financial supervision purposes".

Subsequent events

On 9 February 2015 NN Leven paid EUR 350 million out of the share premium account to Nationale-Nederlanden Nederland B.V. This amount is deducted from the capitalisation and ratios per year end 2014, in accordance with provisions in the Wft regarding dividend payments.

External credit rating

On February 18, 2015, Standard & Poor's raised its rating on NN Leven from A/Developing to A+ with a stable outlook.

The rating of NN Leven is set taking into account the financial position of NN Group.

The rating reflects only the view of Standard & Poor's at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

There are no other external rating assessments for NN Leven.

Authorisation of Consolidated annual accounts of NN Leven

The Consolidated annual accounts of Nationale-Nederlanden Levensverzekering Maatschappij N.V. for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board on 30 June 2015. The Management Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting of Shareholders.

The General Meeting of Shareholders may decide not to adopt the Consolidated annual accounts, but may not amend these.

Rotterdam, 30 June 2015

The Supervisory Board

D.E. (Dorothee) van Vredenburch (50), chairperson
S.D. (Doug) Caldwell (45)
D.E. (David) Knibbe (44)
D. (Delfin) Rueda (51)

The Management Board

M.F.M. (Michel) van Elk (53), CEO and chairperson
J.J. (Hans) Bonsel (51), chief risk officer
P.J. (Patrick) Dwyer, (58), chief financial officer
A.J. (Arthur) van der Wal (42)

Confirmed and adopted by the General Meeting of Shareholders, dated 30 June 2015.

Parent company balance sheet of NN Leven

Amounts in thousands of euros

Parent company balance sheet

As at 31 December before appropriation of result

	Notes	2014	2013
Assets			
Intangible assets		6,741	12,058
Investments in subsidiaries and associates:			
– Investments in subsidiaries	1	3,683,901	3,349,371
– Bonds issued by and receivables from subsidiaries	2	275,516	53,793
– Other associates	3	88,096	41,705
– Bonds issued by and receivables from participants and associates			11,163
Other financial investments:			
– Bonds and other fixed-income securities		39,905,630	31,236,704
– Shares, units of participation and other variable-income securities	4	4,043,839	3,136,762
– Interest in investment pools	5	80,067	68,712
– Receivables from mortgages	6	9,056,939	8,278,388
– Receivables from other loans	7	8,176,397	8,165,828
– Deposits with credit institutions	8	200,543	187,097
– Other financial investments			
Deposits with insurers		116	106
Derivatives	9	5,356,174	1,757,399
Investments for risk of policyholders	10	19,271,801	16,404,584
Reinsurance contracts	15	1,150,613	1,184,405
Receivables:			
– Receivables from insurance and reinsurance		250,546	338,641
– Income tax receivable			11,104
– Other receivables	11	183,986	716,526
Other assets:			
– Other assets		1,900	3,081
– Cash and cash equivalents	12	36,317	46,548
Accrued assets:			
– Accrued interest	13	1,020,715	952,915
– Deferred acquisition costs		293,571	331,494
– Other accrued assets		1,873	100,201
Total assets		**93,085,281**	**76,388,585**

Parent company balance sheet of NN Leven – continued

Amounts in thousands of euros

Parent company balance sheet – continued

As at 31 December before appropriation of result

	Notes	2014	2013
Equity	14		
Share capital		22,689	22,689
Share premium		3,695,769	3,639,723
Legal reserves		769,237	893,715
Revaluation reserve		12,122,709	5,130,503
Other reserves		-2,785,098	-611,312
Unappropriated profit		150,652	237,115
Shareholder's equity		**13,975,958**	**9,312,433**
Undated subordinated loan		450,000	
Total shareholder's equity		**14,425,958**	**9,312,433**
Liabilities			
Subordinated debt		600,000	
Technical provisions	15		
– Technical provisions for life insurance		42,279,605	40,353,586
– Technical provisions for profit sharing and rebates		12,018,268	3,963,750
– Other technical provisions		385,073	280,894
Technical provisions for insurance for risk of policyholders		16,340,338	17,618,636
Derivatives	16	1,599,857	608,658
Deferred tax liabilities	17	1,843,086	386,393
Other provisions	18	828,967	899,628
Deposits from reinsurers		629,546	639,944
Liabilities:			
– Liabilities from direct insurance		593,459	537,043
– Other bonds and private loans	19	739,104	1,467,981
– Other liabilities	20	220,574	275,493
– Income tax payable		23,215	
Accrued liabilities	21	558,231	44,146
Total liabilities		**78,659,323**	**67,076,152**
Total equity and liabilities		**93,085,281**	**76,388,585**

References relate to the notes starting on page 99. These form an integral part of the parent annual accounts..

Parent company profit and loss account of NN Leven

Amounts in thousands of euros

Parent company profit and loss account

For the year ended 31 December

	2014	2013
Result of group companies after tax	198,060	47,022
Other results after tax	-47,408	190,093
Net result	**150,652**	**237,115**

Parent company statement of changes in equity of NN Leven

Amounts in thousands of euros

Parent company statement of changes in equity

	Share capital	Share premium	Legal reserves	Revaluation reserve	Other reserves[1]	Undated subordinated loan	Total
Balance as at 1 January 2013	22,689	3,039,723	887,977	7,585,066	-1,591,697		9,943,758
Revaluations			-35,517	-2,263,127			-2,298,644
Changes in cash flow hedge reserve				-1,011,413			-1,011,413
ABS reserve amortisation				-57,983			-57,983
Deferred profit sharing liability					1,377,462		1,377,462
Transfer to legal reserves			45,272		-45,272		
Dividend from associates							
Other changes			-4,017		-5,786		-9,803
Exchange rate differences				-7,819	-4,559		-12,378
Changes in deferred taxes				885,779	-341,460		544,319
Total amount recognised directly in equity (other comprehensive income)			**5,738**	**-2,454,563**	**980,385**		**-1,468,440**
Capital injection		600,000					600,000
Net result					237,115		237,115
Balance as at 31 December 2013	**22,689**	**3,639,723**	**893,715**	**5,130,503**	**-374,197**		**9,312,433**
Revaluations			130,964	6,971,138			7,102,102
Changes in cash flow hedge reserve				2,303,872			2,303,872
ABS reserve amortisation				35,492			35,492
Deferred profit sharing liability					-3,468,536		-3,468,536
Transfer to legal reserves			198,057		-198,057		
Dividend from associates			-426,165		426,165		
Other changes		56,046	-27,334		-25,204		3,508
Share of other comprehensive income of other associates							
Exchange rate differences				3,676	334		4,010
Changes in deferred taxes				-2,321,972	863,383		-1,458,589
Total amount recognised directly in equity (other comprehensive income)		**56,046**	**-124,478**	**6,992,206**	**-2,401,915**		**4,521,859**
Issuance of undated subordinated loan						450,000	450,000
Dividend paid					-8,986		-8,986
Net result					150,652		150,652
Balance as at 31 December 2014	**22,689**	**3,695,769**	**769,237**	**12,122,709**	**-2,634,446**	**450,000**	**14,425,958**

1 Other reserves includes Retained earnings and Unappropriated result.

Accounting policies for the parent company annual accounts of NN Leven

Basis of presentation

The parent company accounts of NN Leven are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the Consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of investments in group companies and Associates which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Rotterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

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

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve, which forms part of Shareholder's equity.

Insurance contracts

Other insurance provisions

The "Other technical provisions" item contains the longevity provision. The longevity provision is an additional provision alongside the provision for life insurance liabilities that was formed in the past to cover the longevity risk of the group portfolio. No further additions are made. As contracts are renewed, conversion of the provision to the new rate assumptions is funded from the provision for longevity risk.

Notes to the parent company annual accounts of NN Leven

Amounts in thousands of euros, unless stated otherwise

1 Investments in subsidiaries

Investments in subsidiaries

	2014	2013
REI Investment I B.V.	2,867,751	2,306,763
Parcom Capital B.V.	654,405	955,748
Korea Investment Fund B.V.	159,868	84,994
Other	1,877	1,866
Investments in subsidiaries	**3,683,901**	**3,349,371**

Changes in Investments in subsidiaries

	2014	2013
Investments in subsidiaries – Opening balance	3,349,371	3,270,566
Investments	428,467	90,232
Disposals		-7,035
Result of group companies	190,244	41,533
Dividend	-414,762	-10,403
Revaluations	130,581	-35,522
Investments in subsidiaries – Closing balance	**3,683,901**	**3,349,371**
Breakdown of balance sheet value:		
Cost	2,944,886	2,516,419
Cumulative revaluations	739,015	832,952
Investments in subsidiaries	**3,683,901**	**3,349,371**

2 Bonds issued by and receivables from subsidiaries

Bonds issued by and receivables from subsidiaries

	2014	2013
REI Investment I B.V.	213,779	49,443
Private Equity Investments B.V.[1]	47,837	4,350
Infrastructure Debt Investments B.V.	13,900	
Bonds issued by and receivables from subsidiaries	**275,516**	**53,793**

1 Per 12 December 2014 German Private Equity Investments B.V. was renamed to Private Equity Investments B.V.

Bonds issued by and receivables from subsidiaries

	2014	2013
Bonds issued by and receivables from subsidiaries – Opening balance	53,793	193,532
Investments	706,339	125,751
Disposals	-484,616	-265,490
Bonds issued by and receivables from subsidiaries – Closing balance	**275,516**	**53,793**

3 Other associates

Other associates consists of Dolphin Capital B FPCI of EUR 68,453 (2013: EUR 0). For information on Dolphin Capital B FPCI reference is made to Note 6: Associates and joint ventures in the Consolidated annual accounts.

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

4 Shares, units of participation and other variable-income securities

Shares, units of participation and other variable-income securities

	2014	2013
Shares, units of participation and other variable-income securities – Opening balance	3,136,762	2,688,333
Investments	1,538,033	480,911
Disposals	-586,857	-186,336
Revaluations	17,909	145,232
Impairments	-59,423	-56,015
Realised result	-7,100	65,998
Exchange rate differences	4,533	-1,369
Other changes	-18	8
Shares, units of participation and other variable-income securities – Closing balance	**4,043,839**	**3,136,762**
Breakdown of balance sheet value:		
– Cost	3,357,062	2,474,778
– Cumulative revaluations	686,777	661,984
Shares, units of participation and other variable-income securities	**4,043,839**	**3,136,762**
Listed	3,026,043	2,113,064
Unlisted	1,017,796	1,023,698
Shares, units of participation and other variable-income securities	**4,043,839**	**3,136,762**

5 Interest in investmentpools

Interest in investmentpools

	2014	2013
Interest in investmentpools – Opening balance	68,712	337,102
Investments	44,563	105,438
Disposals	-37,658	-357,458
Revaluations	3,409	9,812
Changes in current-account balances	1,240	-21,560
Exchange rate differences	-199	-4,622
Interest in investmentpools – Closing balance	**80,067**	**68,712**

6 Receivables from mortgages

Receivables from mortgages

	2014	2013
Receivables from mortgages – Opening balance	8,299,301	5,035,624
Investments	1,314,296	3,595,385
Disposals	-517,507	-324,451
Amortisation	-21,474	-7,257
Transfer to/from other assets	4,781	
Receivables from mortgages – before Provision for doubtful debts	**9,079,397**	**8,299,301**
Provision for doubtful debts	-22,458	-20,913
Receivables from mortgages – Closing balance	**9,056,939**	**8,278,388**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Provision for doubtful debts

	2014	2013
Provision for doubtful debts – Opening balance	20,913	8,770
Allocation	7,212	16,389
Withdrawal	-6,505	-5,818
Recoveries	838	1,572
Provision for doubtful debts – Closing balance	**22,458**	**20,913**

7 Receivables from other loans

Receivables from other loans

	2014	2013
Receivables from other loans – Opening balance	8,180,677	7,852,281
Investments	1,856,947	2,604,467
Disposals	-2,365,752	-2,195,657
Transfer from/to other assets	419,698	9,989
Amortisation	55,972	-63,212
Realised result	-66	-25,149
Other changes	41,306	-2,042
Receivables from other loans – before Provision for doubtful debts	**8,188,782**	**8,180,677**
Provision for doubtful debts	-12,385	-14,849
Receivables from other loans – Closing balance	**8,176,397**	**8,165,828**

Provision for doubtful debts

	2014	2013
Provision for doubtful debts – Opening balance	14,849	8,849
Allocation		9,989
Withdrawal	-2,464	-3,036
Other changes		-953
Provision for doubtful debts – Closing balance	**12,385**	**14,849**

8 Deposits with credit institutions

Deposits with credit institutions

	2014	2013
Deposits with credit institutions – Opening balance	187,097	175,587
Investments	13,944	15,760
Disposals	-498	-4,250
Deposits with credit institutions – Closing balance	**200,543**	**187,097**

9 Derivatives

Derivatives

	2014	2013
Derivatives – Opening balance	1,757,399	2,794,231
Investments	10,178	287,073
Disposals	-40,293	-460,081
Revaluations	3,628,890	-863,824
Derivatives – closing balance	**5,356,174**	**1,757,399**
Breakdown of balance sheet value		
– cost	164,017	181,953
– cumulative revaluation	5,192,157	1,575,446
Derivatives	**5,356,174**	**1,757,399**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

10 Investments for risk of policyholders

Investments for risk of policyholders

	2014	2013
Investments for risk of policyholders – Opening balance	16,404,584	18,346,991
Investments	2,914,752	3,629,691
Disposals	-6,051,040	-5,414,654
Revaluations	3,851,156	428,084
Realised result	2,176	154,608
Other changes	2,150,173	-740,136
Investments for risk of policyholders – Closing balance	**19,271,801**	**16,404,584**

Other changes includes EUR 1.3 billion related to a change in presentation of certain insurance liabilities for risk of policyholders that were previously presented net under Investments for risk of policyholders.

11 Other receivables

Other receivables

	2014	2013
Receivables and trade accounts receivable	123,997	51,855
Current-account balance with co-insurers	20,419	13,099
Current-account with related parties	40,306	652,547
Other receivables – before Provision for doubtful debts	**184,722**	**717,501**
Provision for doubtful debts	-736	-975
Other receivables – Closing balance	**183,986**	**716,526**

Provision for doubtful debts

	2014	2013
Provision for doubtful debts – Opening balance	975	1,024
Withdrawal	-14	-49
Release	-225	
Provision for doubtful debts – Closing balance	**736**	**975**

12 Cash and cash equivalents

Cash and cash equivalents

	2014	2013
Bank balances	30,900	19,196
Deposits	5,413	27,336
Cash resources	4	16
Cash and cash equivalents	**36,317**	**46,548**

13 Accrued interest

Accrued interest

	2014	2013
Bonds and other fixed-income securities	749,866	741,671
Derivatives	207,132	152,015
Receivables from mortgages	29,667	32,036
Receivables from other loans	34,050	27,193
Accrued interest	**1,020,715**	**952,915**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

14 Equity

Equity

	2014	2013
Share capital	22,689	22,689
Share premium	3,695,769	3,639,723
Legal reserves	769,237	893,715
Revaluation reserve	12,122,709	5,130,503
Other reserves	-2,785,098	-611,312
Unappropriated profit	150,652	237,115
Equity	**13,975,958**	**9,312,433**

Share capital

			Ordinary shares	
	Shares (in number)		Amount	
	2014	2013	2014	2013
Authorised share capital	22,689,015	22,689,015	113,445	113,445
Unissued share capital	18,151,212	18,151,212	90,756	90,756
Issued share capital	**4,537,803**	**4,537,803**	**22,689**	**22,689**

Share premium

	2014	2013
Share premium – Opening balance	3,639,723	3,039,723
Capital injection		600,000
Other changes[1]	56,046	
Share premium – Closing balance	**3,695,769**	**3,639,723**

1 Other changes relates to the reclassification of share premium from the other reserves to the share premium reserve for a former subsidiary.

In 2013 NN Group contributed EUR 600 million Share premium into NN Leven.

Total legal reserves

	2014	2013
Legal reserve for intangible assets	6,740	12,058
Legal reserve for minority interests	23,482	38,302
Legal reserve for majority interests	739,015	843,355
Total legal reserves	**769,237**	**893,715**

Legal reserve for intangible assets

	2014	2013
Legal reserve for intangible assets – Opening balance	12,058	16,076
Disposals		-5,122
Capitalised costs	5,376	8,705
Amortisation	-10,694	-6,733
Other changes		-868
Legal reserve for intangible assets – Closing balance	**6,740**	**12,058**

Legal reserve for minority interests

	2014	2013
Legal reserve for minority interests – Opening balance	38,302	34,557
Revaluations	383	6
Result for the financial year	7,813	5,489
Dividend received / paid	-1,000	-1,750
Changes in the composition of the group	-22,016	
Legal reserve for minority interests – Closing balance	**23,482**	**38,302**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Legal reserve for majority interests

	2014	2013
Legal reserve for majority interests – Opening balance	843,355	837,344
Revaluations	130,581	-35,522
Result for the financial year	190,244	41,533
Dividend paid by majority interests	-425,165	
Legal reserve for majority interests – Closing balance	**739,015**	**843,355**

Revaluation reserve

	2014	2013
Bond revaluation reserve	7,088,254	1,845,965
Share revaluation reserve	657,393	635,380
Hedge reserve	4,377,062	2,649,158
Revaluation reserve	**12,122,709**	**5,130,503**

Bond revaluation reserve

	2014	2013
Bond revaluation reserve – Opening balance	1,845,965	3,722,950
Revaluations	6,953,231	-2,434,839
Amortisation of ABS bond revaluation	35,492	-57,983
Tax on changes over the financial year	-1,745,572	622,329
Exchange rate differences	-862	-6,492
Bond revaluation reserve – Closing balance	**7,088,254**	**1,845,965**

Share revaluation reserve

	2014	2013
Share revaluation reserve – Opening balance	635,380	454,398
Revaluations	17,907	171,712
Tax on changes over the financial year	-432	10,597
Exchange rate differences	4,538	-1,327
Share revaluation reserve – Closing balance	**657,393**	**635,380**

Hedge reserve

	2014	2013
Hedge reserve – Opening balance	2,649,158	3,407,718
Revaluations	2,303,872	-1,011,413
Tax on changes over the financial year	-575,968	252,853
Hedge reserve – Closing balance	**4,337,062**	**2,649,158**

Other reserves

	2014	2013
Other reserves – Opening balance	-611,312	-1,267,128
Transfer of unappropriated profit from previous financial year	237,115	-324,567
Dividend from associates	426,165	
Change in deferred taxes	863,383	-341,460
Change on account of deferred profit sharing liability	-3,468,536	1,377,462
Withdrawal from legal reserves	-198,057	-45,272
Changes in the composition of the group	-25,204	-5,788
Dividend paid	-8,986	
Exchange rate differences	334	-4,559
Other reserves – Closing balance	**-2,785,098**	**-611,312**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Unappropriated profit
The unappropriated profit consists entirely of the result after tax for the financial year.

Non-distributable reserves
In the Dutch Civil Code (Burgerlijk Wetboek) provisions are made on the possibility to pay out dividends. These provisions are also applicable to NN Leven. The paid up share capital, revaluation reserves and statutory reserves cannot be used for dividend payments to the shareholders. In the calculation we have to adjust for the Deferred profit sharing provision (part of the profit sharing liability) that has been generated out of revaluations. Apart from these provisions, the possibility to pay out dividends is restricted by the laws and regulations governing insurance supervision.

Non-distributable reserves with regard to capital protection, based on Dutch Civil Code

		2014		2013
Equity at the end of the year		13,975,958		9,312,433
Share capital	-22,689		-22,689	
Revaluation reserve for bonds	-7,088,254		-1,845,965	
Revaluation reserve for shares	-657,393		-635,380	
Revaluation reserve for hedge (net)	-4,377,062		-2,649,158	
Legal reserves	-769,237		-893,715	
Adjustment for profit sharing liability	**4,814,620**		**2,212,728**	
Total capital subject to claims on account of capital protection		**-8,100,015**		**-3,834,179**
Total freely distributable capital on the basis of capital protection		**5,875,943**		**5,478,254**

The Dutch supervisory rules and regulations stemming from the “Wet op het financieel toezicht” (Wft) provides a second restriction on the possibility to pay out dividends. Only the surplus of the Capital available above the Solvency requirements is available for shareholders. For 2014 a new restriction is introduced on the distribution of surplus, the Theoretical Solvency Criterium (TSC). For further information on the TSC please refer to Note 45 “Capital Management” in the Consolidated annual accounts.

Freely distributable capital

		2014		2013
Solvency requirement under the Financial Supervision Act	2,979,812		2,629,288	
Capital available for financial supervision purposes[1]	7,677,882		5,875,636	
Total freely distributable capital on the basis of solvency requirements		**4,698,070**		**3,246,348**
Total freely distributable capital on the basis of capital protection		**5,875,943**		**5,478,254**
Total freely distributable capital (lowest of the above values)		**4,698,070**		**3,246,348**

1 Reference is made to Note 45 “Capital management”, for the calculation of the “Capital available for financial supervision purposes”.

Internal solvency objective
During 2014 NN Leven targeted a capital position between the requirement as set by the Theoretisch Solvabiliteitscriterium (TSC) and 250% of the Wft solvency requirement.

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

15 Technical provisions

Technical provisions

	Provision net of reinsurance		Reinsurance contracts		Technical provisions	
	2014	2013	2014	2013	2014	2013
Technical provisions for life insurance net of interest and rebates	41,668,882	39,780,783	602,489	645,250	42,271,371	40,426,033
Unamortised acquisition costs	-272,345	-310,525	-13,392	-14,082	-285,737	-324,607
Unamortised interest rebates	8,174	-72,523	60	76	8,234	-72,447
Technical provisions for life insurance[1]	41,404,711	39,397,735	589,157	631,244	41,993,868	40,028,979
Technical provisions for (deferred) profit sharing and rebates	11,892,455	3,856,261	125,813	107,489	12,018,268	3,963,750
Other technical provisions	385,073	280,894			385,073	280,894
Technical provisions for life insurance for risk of policyholders[2]	15,896,861	17,166,077	435,643	445,672	16,332,504	17,611,749
Technical provisions	**69,579,100**	**60,700,967**	**1,150,613**	**1,184,405**	**70,729,713**	**61,885,372**

1 To reconcile the Technical provisions for life insurance EUR 41,993,868 (2013: EUR 40,028,979) with the financial statements EUR 42,279,605 (2013: EUR 40,353,586) the acquisition costs EUR 285,737 (2013: EUR 324,607) have to be added.
2 To reconcile the Technical provisions for life insurance for risk of policyholders EUR 16,332,504 (2013: EUR 17,611,749) with the financial statements EUR 16,340,338 (2013: EUR 17,618,636) the acquisition costs EUR 7,834 (2013: EUR 6,887) have to be added.

NN Leven regularly tests the adequacy of the reserves. As at 31 December 2014 there was an increase of EUR 133 million to the reserves to maintain the reserve adequacy at the 90th percentile.

Technical provisions for life insurance for risk of policyholders

	2014	2013
Technical provisions for life insurance for risk of policyholders – Opening balance	17,618,636	18,113,924
Current year provisions	775,650	974,272
Prior year provisions:		
– benefit payments to policyholders	-1,074,353	-1,153,995
– valuation changes for risk of policyholders	-361,946	2,095,920
Exchange rate differences	-4,557	-36,217
Other changes[1]	-613,092	-2,375,268
Technical provisions for life insurance for risk of policyholders – Closing balance	**16,340,338**	**17,618,636**

1 Other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts, and the transfer of certain insurance contracts. Furthermore, Other changes includes EUR 1.3 billion related to a change in presentation of certain insurance liabilities for risk of policyholders that were previously presented net under Investments for risk of policyholders.

Unamortised interest rate rebates net of reinsurance

	2014	2013
Unamortised interest rate rebates net of reinsurance – Opening balance	72,523	167,259
Change during the financial year	-52,403	-48,870
Amortisation of interest rate rebate granted in the financial year	-34,563	6,313
Amortisation of interest rate rebates capitalised in previous financial years	6,294	-52,232
Exchange rate differences	-25	53
Unamortised interest rate rebates net of reinsurance – Closing balance	**-8,174**	**72,523**

Other technical provisions

	2014	2013
Other technical provisions – Opening balance	280,894	357,823
Allocation	139,008	11,286
Withdrawal	-34,829	-88,215
Other technical provisions – Closing balance	**385,073**	**280,894**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Technical provisions for profit sharing and rebates

	2014	2013
Technical provisions for profit sharing and rebates – Opening balance	3,963,750	6,744,156
Valuation changes for risk of policyholders	-8,397	1,029
Allocation of share in unrealised revaluations	3,468,536	-1,377,462
Paid up additions	-63,297	-57,277
Interest accrual prior year provisions	42,477	54,992
Allocation of share in surplus interest	2,861,299	-1,557,209
Addition/withdrawal through P&L	528,890	157,171
Exchange rate differences	-1,350	-10,599
Other changes	1,226,360	8,949
Technical provisions for profit sharing and rebates – Closing balance	**12,018,268**	**3,963,750**

Other changes includes EUR 1.4 billion related to a change in presentation of certain insurance liabilities for risk of policyholders that were previously presented net under Investments for risk of policyholders.

16 Derivatives

Derivatives

	2014	2013
Derivatives – Opening balance	608,658	259,395
Investments		46,620
Disposals	-30,457	-14,879
Revaluations	1,021,656	317,522
Exchange rate differences		
Derivatives – closing balance	**1,599,857**	**608,658**
Breakdown of balance sheet value		
– cost	3,700	2,038
– cumulative revaluation	1,596,157	606,620
Derivatives	**1,599,857**	**608,658**

17 Deferred tax liabilities

Deferred tax liabilities

	Net liability 2013	Change through equity	Change through net result	Exchange rate differences	Net liability 2014
Investments	598,550	1,741,381	2,102		2,342,033
Financial assets and liabilities at fair value through profit or loss	882,909	575,967			1,458,876
Deferred acquisition costs	43,974		4,343		48,317
Technical provisions	-1,125,606	-858,471	-18,520		-2,002,597
Unused tax losses carried forward					
Other	-13,434	820	9,073	-2	-3,543
Deferred tax liabilities	**386,393**	**1,459,697**	**-3,002**	**-2**	**1,843,086**
Comprising:					
– deferred tax liabilities	1,525,433				3,849,226
– deferred tax assets	-1,139,040				-2,006,140
Deferred tax liabilities	**386,393**				**1,843,086**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

18 Other provisions

Other provisions

	2014	2013
Provision for investment contracts	794,356	834,015
Restructuring provisions	26,585	62,423
Other	8,026	3,190
Other provisions	**828,967**	**899,628**

For Addition/(releases) with regard to the Restructuring provisions reference is made to the disclosure on the reorganisation provision in note 16 “Other liabilities” in the consolidated annual accounts.

19 Other bonds and private loans

Other bonds and private loans

	2014	2013
Other bonds and private loans – Opening balance	1,467,981	438,621
Investments	599,419	1,030,260
Disposals	-1,339,458	-900
Changes in the composition of the group	11,162	
Other bonds and private loans – Closing balance	**739,104**	**1,467,981**

Specification of other bonds and private loans

	2014	2013
Loans from related companies[1]	457,259	155,000
Other loans	13,770	20,166
Other	268,075	1,292,815
Other bonds and private loans	**739,104**	**1,467,981**

1 The average interest rate on Loans from related companies is 0.0% (2013: 0.2%).

“Other” in 2013 mainly concerns the EUR 1,030,259 cash receivable for a securities lending programme. The cash was used to fund the mortgage transactions in December 2013 and was paid back in January 2014.

20 Other liabilities

Other liabilities

	2014	2013
Current-account balance with related companies	21,111	113,923
Taxation and social security contributions	56,456	96,150
Deposits for mortgages and private loans	90,563	2,029
Securities accounts payable	28,729	27,110
Other	23,715	36,281
Other Liabilities	**220,574**	**275,493**

Current-account balance with related companies

	2014	2013
Parent companies	11,677	
Other group companies	9,434	113,923
Current-account balance with related companies	**21,111**	**113,923**

NN Leven receives or pays interest in line with market rates on the current account balance. The rate is based on the average 1-month Euribor rate plus or minus a liquidity spread.

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

21 Accrued liabilities

Accrued liabilities

	2014	2013
Payable costs	415,006	-2,018
Payable interest	143,225	46,164
Accrued liabilities	**558,231**	**44,146**

Payable costs concerns a prepayment received for an insurance contract starting in 2015.

22 Other

Assets not freely disposable

For further explanation of the assets that are not freely disposal reference is made to Note 34, "Assets not freely disposable" in the Consolidated annual accounts.

Related parties

For further explanation of the related parties reference is made to Note 42, "Related parties", in the Consolidated annual accounts.

Fiscal unity

NN Leven is part of the fiscal unity for corporation tax purposes of NN Group together with the majority of its other Dutch insurance group companies, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group.

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Analysis of the result of the former NN Leven portfolio

Profit sources 2014

	Non-unit-linked policies		Unit-linked policies		Total
2014	**Individual insurance contracts**	**Group insurance contracts**	**Individual insurance contracts**	**Group insurance contracts**	
Investments income allocated to insurance contracts	716,024	648,888	443,022	3,236,157	5,044,091
Less: Interest credited to technical provisions	-616,108	-739,719	-435	-288,678	-1,644,940
Less: Movement resulting from change in interest rate structure					
Less: Movement resulting from change in package costs and package					
Profit or loss on interest	**99,916**	**-90,831**	**442,587**	**2,947,479**	**3,399,151**
Release of expenses from premiums	107,652	33,152	22,508	33,710	197,022
Release of expenses from technical provisions	25,417	24,311	6	14,700	64,434
Expenses debited to technical provisions					
Operating expenses	-227,130	-224,079	-70,144	-153,094	-674,447
Less: Movement resulting from change in expenses					
Profit or loss on expenses	**-94,061**	**-166,616**	**-47,630**	**-104,684**	**-412,991**
Profit or loss on probability rate systems	-4,515	-6,032	-67,239	110,786	33,000
Movement resulting from change in probability rate systems					
Profit or loss on technical analysis	**-4,515**	**-6,032**	**-67,239**	**110,786**	**33,000**
Less: Increase in negative balance of technical provisions to zero					
Total profit or loss on assumptions	**1,340**	**-263,479**	**327,718**	**2,953,581**	**3,019,160**
Profit sharing:					
Contractual	-4,945	-552,624	-443,922	-2,688,976	-3,690,467
Dependent on operating profits	-25,000				-25,000
Amortisation of interest rate rebate	-10,132	-18,129			-28,261
Others					
Total amount made available for profit sharing	**-40,077**	**-570,753**	**-443,922**	**-2,688,976**	**-3,743,728**
Profit or loss on assumptions after profit sharing	**-38,737**	**-834,232**	**-116,204**	**264,605**	**-724,568**
Movement in other technical provisions, net of reinsurance					**104,179**
Net other technical income/charges					
Interest credited to other technical provisions					12,871
Balance on the technical account					**-815,876**

Notes to the parent company annual accounts of NN Leven – continued

Amounts in thousands of euros, unless stated otherwise

Analysis of the result of the former RVS Leven portfolio

Profit sources 2014

	Non-unit-linked policies		Unit-linked policies		Total
2014	Individual insurance contracts	Group insurance contracts	Individual insurance contracts	Group insurance contracts	
Investments income allocated to insurance contracts	190,865		57,277		248,142
Less: Interest credited to technical provisions	-168,270		-52,275		-220,545
Less: Movement resulting from change in interest rate structure					
Less: Movement resulting from change in package costs and package					
Profit or loss on interest	**22,595**		**5,002**		**27,597**
Release of expenses from premiums	69,518		7,320		76,838
Release of expenses from technical provisions	4,766				4,766
Expenses debited to technical provisions					
Operating expenses	-99,818		-20,772		-120,590
Less: Movement resulting from change in expenses					
Profit or loss on expenses	**-25,534**		**-13,452**		**-38,986**
Profit or loss on probability rate systems	40,452		10,099		50,551
Movement resulting from change in probability rate systems					
Profit or loss on technical analysis	**40,452**		**10,099**		**50,551**
Less: Increase in negative balance of technical provisions to zero					
Total profit or loss on assumptions	**37,513**		**1,649**		**39,162**
Profit sharing:					
Contractual	-12				-12
Dependent on operating profits	-19,156				-19,156
Amortisation of interest rate rebate	-8				-8
Others					
Total amount made available for profit sharing	**-19,176**				**-19,176**
Profit or loss on assumptions after profit sharing	**18,337**		**1,649**		**19,986**
Movement in other technical provisions, net of reinsurance					
Net other technical income/charges					
Interest credited to other technical provisions					
Balance on the technical account					**19,986**

Authorisation of Parent company annual accounts of NN Leven

Rotterdam, 30 June 2015

The Supervisory Board

D.E. (Dorothee) van Vredenburch (50), chairperson
S.D. (Doug) Caldwell (45)
D.E. (David) Knibbe (44)
D. (Delfin) Rueda (51)

The Management Board

M.F.M. (Michel) van Elk (53), CEO and chairperson
J.J. (Hans) Bonsel (51), chief risk officer
P.J. (Patrick) Dwyer, (58), chief financial officer
A.J. (Arthur) van der Wal (42)

Independent auditor's report

To: the Shareholder and Supervisory Board of Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Report on the audit of the annual accounts 2014

Opinion
We have audited the accompanying annual accounts 2014 of Nationale-Nederlanden Levensverzekering Maatschappij N.V. ("NN Leven") (as set out on pages 10 to 112), based in Rotterdam. The annual accounts include NN Leven's consolidated annual accounts and the parent company annual accounts.

In our opinion
- The consolidated annual accounts give a true and fair view of the financial position of NN Leven as at 31 December 2014, and of its results and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
- The parent company annual accounts give a true and fair view of the financial position NN Leven as at 31 December 2014 and of its result for the year 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2014;
- the following statements for 2014: consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:
- the company balance sheet as at 31 December 2014;
- the company profit and loss account for the year 2014; and
- the notes comprising a summary of the accounting policies and other explanatory information.

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

We are independent of NN Leven in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

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

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 140 million. The materiality is based on approximately 1 percent of shareholders' equity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons. We agreed with the Supervisory Board that misstatements in excess of EUR 4.25 million , 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.

Scope of the group audit
NN Leven is head of a group of entities. The financial information of this group is included in the consolidated annual accounts of NN Leven. Besides NN Leven, NN Leven group consists of the following entities:
REI Investment I B.V., Parcom Capital B.V., Private Equity Investments B.V., Infrastructure Debt Investments B.V., Korea Investment Fund B.V., Mittelstand Senior Debt Investment B.V. and branch office NN Leven Czech Branch. REI Investment I B.V. and Parcom Capital B.V. each invests in multiple entities.

We are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the reporting units based on their size and/or the risk profile.

Following our assessment of the risk of material misstatement to NN Leven's annual accounts, we have selected all entities. In total, three entities required an audit of the complete financial information, either due to their overall size or risk profile. Specific audit procedures on certain balances and transactions were performed for four entities. We have used the work of other EY auditors when auditing these reporting units operating in and outside the Netherlands.

Independent auditor's report – continued

The NN Leven audit team executed a programme of planned visits and regular communication that has been designed to ensure that the audit progress and findings for each of the in-scope locations were discussed between the NN Leven audit team and the EY component team. By performing the procedures mentioned above at group entities, together with additional procedures at NN Leven level, we have been able to obtain sufficient and appropriate audit evidence regarding NN Leven's financial information as a whole to provide a basis for our opinion on the annual accounts.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Management and Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.
These matters were addressed in the context of our audit of the consolidated annual accounts as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Estimates used in calculation of insurance contract liabilities and Reserve Adequacy Test (RAT)

NN Leven has insurance and investment contract liabilities of EUR 71.8 billion representing 91% of its total liabilities. The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. Various economic and non-economic assumptions are being used to estimate these long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the reserve adequacy test.

The insurance liabilities of NN Leven's reporting units are calculated based on a prudent prospective actuarial method. For traditional business assumptions are initially set at the policy issue date. For other investment type products, assumptions are based on management's best estimate at the reporting date.

NN Leven's IFRS reserve adequacy test is a key test performed in order to ensure that insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of expected future cash outflows. The reserve adequacy test of NN Leven's individual life and group pension business requires the application of significant judgement in the setting of the longevity, expense and reinvestment rate assumptions.

We involved internal actuarial specialists to assist us in performing the audit procedures in this area, which included among others the consideration of the appropriateness of assumptions used in the valuation of NN Leven's individual life and pension contracts by reference to company and industry data and expectations of investment returns, future longevity and expense developments.

Further key audit procedures included assessing NN Leven's methodology for calculating the insurance liabilities, reserve adequacy test and an assessment of internal controls in this respect, including the analyses of the movements in insurance contracts liabilities and the reserve adequacy surplus during the year. We assessed whether the movements are in line with the changes in assumptions adopted by NN Leven, our understanding of developments in the business and our expectations derived from market experience.

We considered whether NN Leven's disclosures in the annual accounts in relation to insurance contract liabilities in note 14 and liability adequacy test results in note 44 comply with the relevant accounting requirements.

Fair value measurement of investments and related disclosures

NN Leven invests in various asset classes, of which 76% is carried at fair value in the balance sheet. Fair value measurement can be a subjective area and more so for areas of the market reliant on model based valuation or with weak liquidity and price discovery. Valuation techniques for real estate, private equity investments , non-listed bonds, mortgages, equities or derivatives can be subjective in nature and involve 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 areas of focus include the valuation of fair value Level 2 assets, and 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 approval. We performed additional procedures for areas of higher risk and estimation with the assistance of our valuation specialists. This included, where relevant, comparison of judgements 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. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosure of valuation sensitivity and fair value hierarchy in note 29.

Solvency

In the Capital and liquidity management section of the annual accounts included in note 45, NN Leven provides disclosures on its capital position under the current solvency regime, Solvency I. These disclosures provide information on the capital position of NN Leven on a regulatory basis of accounting compared to an IFRS basis as included in the annual accounts.

Independent auditor's report – continued

Further, NN Leven discloses its economic capital requirement (EC) in the notes to its annual accounts. The metrics have been prepared on an economic basis of accounting and the policies applied differ significantly from those used in the IFRS financial statements. The key methodologies, policies and judgements used in the EC calculations have been disclosed in note 44. The EC calculations are highly sensitive to the methodology, policies and assumptions used.

We involved internal actuarial specialists to assist us in performing our audit procedures in this area, which included among others consideration of the methodology applied, the assessment of the models used, the scenarios and economic and non-economic assumptions applied, risk margins and the diversification benefits calculated.

As part of our audit procedures, we have assessed the design and operating effectiveness of the internal controls over the EC calculations, including NN Leven's methodology, model and assumption approval processes and management review controls. Also, this included, where relevant, comparison of judgements made to current and emerging market practice and re-performance of calculations on a sample basis.

Reliability and continuity of electronic data processing

NN Leven is strongly dependent on its IT infrastructure for the continuity of the operations. NN Leven continues to invest in its IT infrastructure and processes to meet clients' needs and business requirements. NN Leven is continuously improving the efficiency and effectiveness of its IT infrastructure and the reliability and continuity of the electronic data processing, for example by addressing control deficiencies identified. An important area of attention is the ongoing development of IT systems and processes to further improve risk management and meet regulatory reporting requirements under Solvency II.

As part of our audit procedures we have assessed the changes in the IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of our audit. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting.

Unit-linked exposure

NN Leven sold unit-linked products where the customer bears all or part of the investment risk, or consumer protection organisations on their behalf, have filed claims or initiated proceedings against NN Leven and may continue to do so. A negative outcome of such claims and proceedings in respect of unit-linked products, settlements or any other actions for the benefit of customers by other insurers and sector-wide measures could result in substantial losses for NN Leven relating to compensation. The financial consequences of these legal proceedings cannot be reliably estimated or quantified at this point. Refer to note 39 of the annual accounts.

We involved our specialists to assist us in performing our audit procedures in this area, which included:

- an assessment of NN Leven's governance, processes and internal controls with respect to unit-linked exposures within its operating companies.
- a review of the documentation and a discussion thereon of the unit-linked exposures with management and its internal and external legal advisors;
- a detailed consideration of the recognition and measurement requirements to establish provisions under NN Leven's accounting framework.

We also considered whether NN Leven's disclosures in respect of this legal exposure is compliant with the relevant accounting requirements. We focused on the adequacy of disclosure of the related risks and assumptions in note 39 to the annual accounts.

Responsibilities of the Management Board and Supervisory Board for the annual accounts

The Management Board is responsible for the preparation and fair presentation of these annual accounts in accordance with IFRS-EU and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Management Board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing NN Leven's ability to continue its activities. Based on the financial reporting frameworks mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate NN Leven or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on NN Leven's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibility for the audit of the annual accounts

Our responsibility is to plan and perform the audit assignment 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 errors and fraud.

Independent auditor's report – continued

We have exercised professional judgement and have maintained professional scepticism 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 consolidated annual accounts, 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 NN Leven's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Concluding on the appropriateness of the Management 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 NN Leven'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 annual accounts 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 NN Leven ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures; and
- Evaluating whether the annual accounts 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 annual accounts 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.

Report on other legal and regulatory requirements

Report on the Report of the Management Board and other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Report of the Management Board and other information):

- We have no deficiencies to report as a result of our examination whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the Other information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts.

Engagement

We have been reappointed as auditors for the audit of the 2014 annual accounts at the Nationale-Nederlanden Levensverzekering Maatschappij N.V.'s General Meeting held on 14 June 2013 as confirmed by NN Group's General Meeting on 6 May 2014 and have been the external auditor for a long time. The most recent rotation of the signing external auditor on the audit of the NN Leven annual accounts was in 2011. Rotation of the signing external auditor is one of our safeguards to maintain our auditor independence.

The Hague, 30 June 2015

Ernst & Young Accountants LLP

Signed by J. Niewold

Proposed appropriation of result

Amounts in thousands of euros

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Leven, the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting of Shareholders, having heard the advice of the Management Board and the Supervisory Board.

For 2014, it is proposed to appropriate the entire result to the reserves, so that no final dividend will be paid.

In 2014, NN Leven declared and paid a cash dividend of EUR 11,981 (2013: EUR 0) to its shareholder.

Proposed appropriation of result

Net result	150,652
Deduction from reserves pursuant to Article 22 (3) of the Articles of Association	
Proposed to be added to the Other Reserves pursuant to Article 21(3) of the Articles of Association	**150,652**

Subsequent events

On 9 February 2015 NN Leven paid EUR 350 million out of the share premium account to Nationale-Nederlanden Nederland B.V.
The reported solvency figures as per 31 December 2014 are disclosed after this repayment.

Profit sharing for policyholders

The guidelines with the details, in Dutch, with regard to policyholders profit-sharing can be found at www.nn.nl/winstdelingsrichtlijn. The text of the guidelines is the same as the text that was published in the annual account over the year 2012. Below is some information on the merger of the NN Leven and RVS Leven portfolios.

Legal merger of NN Leven and RVS Leven

The legal merger of NN Leven and RVS Leven of 28 December 2011 has not led to any changes in the existing contractual rights and obligations of policyholders. The profit sharing for policies with a participation feature was not affected by this merger either. The existing profit-sharing schemes in both the pre-merger NN Leven portfolio and the pre-merger RVS Leven portfolio will remain unchanged. The principles and methods of these schemes differ from each other. The administrative and management measures needed to ensure these schemes can be maintained were taken prior to the merger.

Both profit-sharing schemes stipulate that profit appropriation is to be performed in accordance with NN Leven's current articles of association. These articles of association were left unchanged during the merger, but were changed per 13 December 2013 and per 23 March 2015. However, the content of the articles stipulating the appropriation of profit remained unchanged, only the numbering of these articles changed. The articles of association of (the former) RVS Leven contained comparable provisions governing profit appropriation.

Article 21, paragraph 3 (formerly article 20, paragraph 2), of the articles of association stipulates that the appropriation of the profit is determined by the general meeting of shareholders after having heard the advice of the Management Board and the Supervisory Board. Article 21, paragraph 4 (formerly article 20, paragraph 3), of the articles of association stipulates that the general meeting of shareholders can, having heard the Management Board and the Supervisory Board, decide on a unanimous vote to set apart a portion of the profits for certain insurance policies with a participation feature. The Management Board sets the criteria determining how any profit separated in this way should be subdivided among the different insurance policies and the manner in which this profit will be made available.

In connection with the decision to maintain the existing profit-sharing schemes of NN Leven and (the former) RVS Leven, two guidelines exist for the determination of profit sharing for policyholders by the general meeting of shareholders: one guideline for insurance policies taken out with NN Leven prior to the merger, and one guideline for insurance policies taken out with RVS Leven prior to the merger. The guideline for NN Leven also applies to insurance policies with a participation feature taken out with NN Leven after the merger.

Contact and legal information

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

Important legal information

Certain of the statements contained in this 2014 Annual report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Leven's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of the EC Restructuring Plan, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Leven's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Leven speak only as of the date they are made, and, NN Leven assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.