2016
Annual Report

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Annual Report 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 2016 was as follows:

Management Board
Composition as at 31 December 2016

M.F.M. (Michel) van Elk (1962), CEO and chair

P.J. (Patrick) Dwyer (1956), CFO

J.J. (Hans) Bonsel (1963), CRO

A.J. (Arthur) van der Wal (1972)

T. (Tjeerd) Bosklopper (1975)

Supervisory Board
Composition as at 31 December 2016

D.E. (Dorothee) van Vredenburch (1964), chair

D. (Delfin) Rueda (1964), vice-chair

J.H. (Jan-Hendrik) Erasmus (1980)[1]

D.E. (David) Knibbe (1971)

Resigned in 2016

S.D. (Doug) Caldwell (1969)[2]

1 Appointment as at 1 September 2016 at the General Meeting on 31 August 2016
2 Resignation as as at 1 September 2016 by resignation letter

NN Group and NN Leven at a Glance

NN Leven is part of NN Group N.V.

NN Group

NN Group N.V. ('NN Group') is an insurance and asset management company. We are active in 18 countries, with a leading position in the Netherlands and a strong presence in a number of European markets and Japan. NN Group includes NN, Nationale-Nederlanden and NN Investment Partners.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. We are committed to helping people secure their financial futures, offering retirement services, insurance, investments and banking products. Our strategy is to deliver an excellent customer experience, based on strong products and services, and long-term relationships.

NN Group became a standalone company on 2 July 2014. Since that date our shares are listed and traded on Euronext Amsterdam under the listing name 'NN Group' (symbol 'NN').

Possible impact Delta Lloyd acquisition by NN Group

The conditional agreement between the Boards of NN Group and Delta Lloyd to combine Delta Lloyd with the Dutch and Belgian activities of NN Group builds on our strategy to deliver an excellent customer experience and generate shareholder return.
Delta Lloyd shareholders have until 7 April 2017 to offer their shares, unless extended.

The combination of the activities of both companies will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service. It will provide increased possibilities for knowledge sharing, strengthening capabilities and talent development. And, it will bring growth perspective and lead to opportunities for employees of both NN Group and Delta Lloyd.

The transaction will create a well-diversified leader in the Dutch pensions, life and non-life insurance and banking sectors, with a strong asset management platform, attractive international presence, ample growth opportunities, and appealing customer propositions. It creates consolidation in the insurance sector, and as such brings additional stability in the markets, and will generate materially higher cash return to NN Group's shareholders over time through benefits of scale.

Read more in Note 42 'Other events' of the Annual Report.

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, RVS Levensverzekering N.V. ('RVS Leven') and Nationale-Nederlanden Services N.V. ('NN Services').

NN Leven has a strong position in the Dutch pension market. It is NN Group's largest business measured by the balance sheet total 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 conduct and serve as a compass for decision making.

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. ('NN Eurasia'). NN Eurasia is fully owned by NN Group.

On 31 December 2015, NN Leven entered into a legal merger with NN Services, at that time a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. As a result of this merger, NN Services ceased to exist and NN Leven acquired all assets and liabilities of NN Services under universal title of succession, as per 1 January 2016.

On 1 December 2016, NN Leven acquired all shares in RVS Hypotheekbank N.V. ('RVS HB'), at that time a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. Subsequently, NN Leven and RVS HB entered into a legal merger. As a result of this merger, RVS HB ceased to exist and NN Leven acquired all assets and liabilities of RVS HB under universal title of succession, as per 2 December 2016.

Report of the Management Board

Financial Developments

Analysis of results[1]

Amounts in millions of euros	2016	2015
Investment margin	786	838
Fees and premium-based revenues	292	310
Technical margin	93	207
Operating income	1,171	1,355
Administrative expenses	387	390
DAC amortisation and trail commissions	39	48
Expenses	426	438
Operating result	745	917
Non-operating items:	451	280
of which gains/losses and impairments	182	312
of which revaluations	279	50
of which market and other impacts	-10	-89
Special items before tax	-14	-11
Result before tax	1,182	1,186
Taxation	195	116
Net result	987	1,070

1 In this table only the NN Leven share in the partially owned subsidiaries (Private Equity Investments II B.V. and REI Investment I B.V.) has been taken into account. Therefore only the 'Net result' reconciles with the 'Net result attributable to shareholder of the parent' in the Consolidated profit and loss account

Key figures

Amounts in millions of euros	2016	2015
New sales life insurance (APE)	229	253
Value of new business (VNB)	9	6
Internal rate of return (IRR)	7.1%	8.5%
Total administrative expenses	387	390
NN Leven Solvency II ratio[1]	203%	216%

1 The solvency ratios are not final until filed with the regulators. The Solvency II ratio is based on the partial internal model. The NN Leven solvency ratio at the end of 2015 reflect a dividend of EUR 150 million paid to Nationale-Nederlanden Nederland B.V. in March 2016

NN Leven's full-year 2016 operating result declined to EUR 745 million from EUR 917 million in 2015, which benefited from EUR 195 million private equity dividends compared with EUR 72 million in 2016 (including an exceptional dividend of EUR 30 million from an indirect stake in ING Life Korea).

Fees and premium-based revenues decreased due to the individual life closed book run-off and lower fees in the pension business.

The technical margin in 2015 included EUR 52 million of benefits following updates to certain technical provisions, while 2016 reflects a EUR 22 million addition to the unit-linked guarantee provision due to a decrease in interest rates, as well as lower morbidity results.

The result before tax for the full year 2016 was EUR 1,182 million compared with EUR 1,186 million in 2015 as the lower operating result was offset by higher non-operating items.

New sales ('APE') decreased to EUR 229 million in 2016 from EUR 253 million in 2015, which included a EUR 420 million single premium relating to the buy-out of a large company pension fund. Excluding the impact of this buy-out, APE increased 8.4% mainly driven by higher group pension renewals.

The value of new business ('VNB') for 2016 was EUR 9 million versus EUR 6 million in 2015.

The Solvency II ratio of NN Leven was 203% at the end of 2016 compared with 216% at the end of 2015.

Business developments

NN Leven continued to operate in a complex economic, business and regulatory environment in 2016. 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.

Our values

At NN, we want to help people secure their financial futures. To fulfil this purpose, we base our work on three core values: care, clear, commit. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. And they are brought to life through our day-to-day work. Our values, which we published under the title NN Statement of Living our Values, set the standard for conduct and provide a compass for decision making. Every single NN employee will be responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

NN Leven wants to help people secure their financial futures with our strategy to deliver an excellent customer experience, based on great service and long-term relationships. We offer our customers value for money and an experience that is straightforward, personal and caring. We create transparent, easy to understand products and we empower our customers with the knowledge and tools they need to make sound financial decisions.

NN Leven measures and analyses its Net Promoter Score ('NPS') results and complaints, adjusting processes in line with customers' feedback and expectations. In its Individual Life business, a predominantly closed book operation, NN Leven has continued improve customer experience combined with cost reduction. In the Pensions area customer service levels were improved by substantially reducing administrative backlogs and ensuring adequate responsiveness to customer inquiries. At the same time customer satisfaction is not at the desired levels in the Pensions area, partly due to the continued operational burden of implementing pension legislation changes in legacy systems.

In 2016 NN Leven was selected as the leading pension insurer by business magazine 'MT Finance' for the third year in a row. NN Leven is commited to delivering the service levels required by our customers, and will continue shifting its active customer base to its modern service platforms.

Report of the Management Board
Continued

Our strategy
To leverage on market opportunities and to keep progressing, we are building a company that truly matters to our stakeholders. Our role in society and our approach to sustainability is something we take very seriously. We will continue to focus on improving people's financial well-being and manage the assets entrusted to us by our customers, as well as our own assets, in a responsible way. Our strategy is to deliver an excellent customer experience.

NN Leven's transformation strategy is aimed at managing liability risks, reducing expenses and optimising its investment portfolio. Furthermore NN Leven is pursuing new business opportunities in the changing retirement market.

Innovation
In 2016, NN Leven established automated links to salary packages software from HR benefits companies. This is an industry best practice, that improves administrative efficiency for both NN Leven and its customers. Employers no longer have to process changes in separate HR systems and for pension administration purposes. We are the first company to enable this in the Netherlands and plan further roll-out in 2017.

Products and services
In November 2016, the general pension fund 'De Nationale APF', which was set up by AZL, NN Leven's pension administrator, and NN Investment Partners Holding N.V. ('NNIP'), received its license from Dutch Central Bank ('DNB'). De Nationale APF is an independent entity which provides an attractive solution for pension funds and employers to comply with increasingly complex pension regulations and to benefit from economies of scale.

NN Leven is strengthening its commercial position by developing new features for group pension schemes, allowing participants to invest additional contributions during their working life ('Bijsparen'), or to keep investing after their retirement ('Doorbeleggen').

Due to the shift to DC, the roll-over market for pension pay-outs as immediate annuities and variable annuities is expected to grow. NN Leven has improved its offering for this market, by introducing a new immediate annuity product ('Actief Pensioen') on its efficient IT platform. Together with the introduction of Actief Pensioen, a new service was introduced: Pension Assistance ('Pensioen Hulp'). This online tool, open to customers and non-customers alike, provides relevant and personalised information to help people prepare for their retirement in the ten years leading prior to retiring.

Distribution
NN Leven took steps to improve product distribution by improving its distribution approach with actuarial consultancies and specialised pension intermediaries. Specialised pension advisors and international advisory firms continued to play an increasingly important role in our distribution strategy.

Our employees
At NN Leven, people truly matter. We genuinely believe we can better serve our customers and achieve our business goals if our people are encouraged to put their different talents, personalities and expertise to work. We know that we can only be the insurance company we want to be if our people are skilled, motivated and energised by their work. Their personal success is our common success. This requires a culture that welcomes and respects all people, and focuses on empowerment and entrepreneurship.

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. To strengthen and enhance the changeability of its management, NN Leven started a multi-year accountable leadership initiative in 2016.

Our role in society
At NN Leven we aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of society at large and supporting the communities in which we operate.

NN Leven contributes to society by purchasing goods and services from suppliers in the communities where we operate, as well as by managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen.

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. The company 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. For example, NN Leven conducted a campaign that resulted in several activities for Dutch women in order to improve the financial and pension awareness of women and help them to take action for their financial future.

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
Solvency II reporting started in 2016. As part of the preparations NN Group submitted a request to DNB to use a Partial Internal Model for the reporting of Solvency Capital Requirement, including NN Leven. In Q4 2015 DNB approved the use of the Partial Internal Model for NN Group and for NN Leven.

The Partial Internal Model better reflects the company's risk profile of the underlying business and provides additional insight for risk management purposes.

Risk management
For information regarding risk management reference is made to Note 43 'Risk management'.

Dutch unit-linked products
In the Netherlands, unit-linked products have received negative public attention since the end of 2006. We have taken this criticism to heart, as our aim is to support our customers as best we can. In recent years, NN Leven has made significant progress in reaching out to ('activeren') individual customers who purchased unit-linked products in the past, addressing vulnerable customer groups with priority.

Report of the Management Board
Continued

To date, we reached out to 100% of customers with non-accumulating policies, mortgage related policies and pension related policies (third pillar). From a total of almost one million individual unit-linked policies sold up to 2006, approximately 288,000 policies were still active on 31 December 2016. In a limited number of cases (less than 500 by the end of 2016), NN Leven has settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers have put forward their cases at the Dutch Complaints Committee Kifid or at the civil courts.

NN Leven has actively reached out to unit-linked customers. These efforts were recognised by the financial authority AFM.

Conclusions and ambitions
NN Leven continues its course to become a more cost-effective and customer-oriented insurer with modern IT systems and excellent services. The transformation of NN Leven will improve current processes, reduce legacy systems, reduce costs and further refine our customer focus.

Some of the major challenges in 2017 for NN Leven will be the continuing transformation of the business in an efficient cost manner, continue to deliver on improving customer satisfaction and strengthen its commercial position.

Corporate Governance

Board composition

NN Leven aims to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). Annually, the Supervisory Board assesses the composition of the Boards. 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, as NN Leven needs to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the above mentioned gender balance in 2016. 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 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 an indirect subsidiary of NN Group that has 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 2016 Financial Report.

Financial reporting process

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

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

The internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of NN Leven's assets
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NN Leven's receipts and expenditures are handled only in accordance with authorisation of its management and directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the assets that could have a material effect on NN Leven's financial statements

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

External auditor

On 28 May 2015, the general meeting of shareholders ('General Meeting') of NN Group appointed KPMG Accountants N.V. as the external auditor of NN Group and its subsidiaries including NN Leven, for the financial years 2016 through 2019. On 30 June 2015, the General Meeting of NN Leven appointed KPMG Accountants N.V. as external auditor for the financial years 2016 through 2019.

Ernst & Young Accountants LLP, in its capacity of external auditor of NN Leven for the financial year 2015, attended the meetings of the Supervisory Board on 7 and 25 April 2016.

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

Code of Conduct for Insurers

In June 2011, NN Leven signed up to the revised Code of Conduct for Insurers. The Code of Conduct is elaborated by the integration of the Governance Principles on 9 December 2015. 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).

Rotterdam, 30 March 2017

The Management Board
Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2016	2015
Assets			
Cash and cash equivalents	2	182,432	169,309
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		15,001,771	18,006,193
– non-trading derivatives		3,040,324	3,057,161
– designated as at fair value through profit or loss		234,142	137,147
Available-for-sale investments	4	51,935,476	48,068,892
Loans	5	19,450,535	18,819,967
Reinsurance contracts	14	1,157,953	1,192,584
Associates and joint ventures	6	2,676,562	2,174,992
Real estate investments	7	2,029,542	1,569,114
Equipment		14	124
Intangible assets	8	9,078	9,358
Deferred acquisition costs	9	243,481	264,577
Other assets	10	2,354,526	1,514,495
Total assets		**98,315,836**	**94,983,913**
Equity	11		
Shareholder's equity (parent)		15,894,518	13,831,344
Minority interests		621,392	529,981
Undated subordinated loan		450,000	450,000
Total equity		**16,965,910**	**14,811,325**
Liabilities			
Subordinated debt	12	600,000	600,000
Other borrowed funds	13	1,978,068	2,053,759
Insurance and investment contracts	14	73,453,835	73,138,484
Financial liabilities at fair value through profit or loss:	15		
– non-trading derivatives		745,525	538,624
Other liabilities	16	4,572,498	3,841,721
Total liabilities		**81,349,926**	**80,172,588**
Total equity and liabilities		**98,315,836**	**94,983,913**

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

Consolidated profit and loss account

Consolidated profit and loss account

For the year ended 31 December	notes	2016	2016	2015	2015
Gross premium income	17		2,386,682		2,864,490
Investment income	18		2,611,931		2,597,084
– gross fee and commission income		15,932		23,999	
– fee and commission expenses		-111,910		-109,480	
Net fee and commission income	19		-95,978		-85,481
Valuation results on non-trading derivatives	20		199,996		-60,738
Foreign currency results and net trading income	21		-28,218		55,525
Share of result from associates and joint ventures	6		376,593		472,297
Other income			2,671		-874
Total income			**5,453,677**		**5,842,303**
– gross underwriting expenditure		4,797,795		4,815,126	
– investment result for risk of policyholders		-963,107		-652,557	
– reinsurance recoveries		-149,924		-164,150	
Underwriting expenditure	22		3,684,764		3,998,419
Staff expenses	23		236,675		231,741
Interest expenses	24		104,589		151,437
Other operating expenses	25		188,794		201,627
Total expenses			**4,214,822**		**4,583,224**
Result before tax			1,238,855		1,259,079
Taxation	27		194,616		118,298
Net result			**1,044,239**		**1,140,781**
Net result attributable to:					
Shareholder of the parent			987,465		1,069,827
Minority interests			56,774		70,954
Net result			**1,044,239**		**1,140,781**

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2016		2015
Net result		**1,044,239**		**1,140,781**
Items that may be reclassified subsequently to the profit and loss account:				
– unrealised revaluations available-for-sale investments and other[1]	2,187,583		-476,619	
– realised gains/losses transferred to the profit and loss account[1]	-193,964		-306,928	
– changes in cash flow hedge reserve	453,301		-435,285	
– deferred interest credited to policyholders	-700,678		543,317	
– exchange rate differences	27,956		9,297	
Total other comprehensive income		**1,774,198**		**-666,218**
Total comprehensive income		**2,818,437**		**474,563**
Comprehensive income attributable to:				
– shareholder of the parent	2,727,026		399,314	
– minority interests	91,411		75,249	
Total comprehensive income		**2,818,437**		**474,563**

1 As of 2016 a more detailed split has been made between realised and unrealised revaluations, for comparison reason 2015 also had been changed accordingly

Reference is made to Note 27 'Taxation' for the disclosure on the income effects on each component of other comprehensive income

Consolidated statement of cash flows

Consolidated statement of cash flows

For the year ended 31 December	notes	2016	2015
Result before tax		1,238,855	1,259,079
Adjusted for:			
- depreciation		1,507	390
- deferred acquisition costs		43,862	78,594
- underwriting expenditure (change in insurance liabilities)		-1,930,328	-1,243,744
- other		255,946	90,264
Taxation paid		-114,451	-184,057
Changes in:			
- non-trading derivatives		223,738	-205,858
- other financial assets at fair value through profit or loss		-97,463	-44,366
- loans		6,969	142,828
- other assets		-888,208	120,460
- other liabilities		87,674	-557,953
Net cash flow from operating activities		**-1,171,899**	**-544,363**
Investments and advances:			
- associates and joint ventures		-86,972	-90,347
- available-for-sale investments		-4,493,818	-5,522,649
- real estate investments		-399,939	-389,180
- equipment		80	
- investments for risk of policyholders		-1,689,111	-2,437,960
- other investments		-3,723,995	-4,405,235
Disposals and redemptions:			
- associates and joint ventures		246,083	708,494
- available-for-sale investments		2,926,072	2,274,658
- real estate investments		11	10
- equipment		-1	49
- investments for risk of policyholders		6,016,185	5,820,585
- other investments		3,086,459	4,148,140
Net cash flow from investing activities		**1,881,054**	**106,565**
Proceeds from other borrowed funds		2,364,799	2,058,089
Repayments of other borrowed funds		-2,440,491	-756,885
Dividend paid	11	-600,000	-765,000
Coupon on undated subordinated loan		-20,340	-20,340
Net cash flow from financing activities		**-696,032**	**515,864**
Net cash flow		**13,123**	**78,066**
Cash and cash equivalents at beginning of the period		169,309	91,243
Cash and cash equivalents at end of the period		**182,432**	**169,309**

Reference is made to Note 26 'Interest and dividend included in net cash flow' for the classification of interest and dividend included in the net cash flow.

Consolidated statement of changes in equity

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 2016	**22,689**	**3,228,030**	**10,580,625**	**13,831,344**	**529,981**	**450,000**	**14,811,325**
Unrealised revaluations available-for-sale investments and other[1]			2,152,946	2,152,946	34,637		2,187,583
Realised gains/losses transferred to the profit and loss account[1]			-193,964	-193,964			-193,964
Changes in cash flow hedge reserve			453,301	453,301			453,301
Deferred interest credited to policyholders			-700,678	-700,678			-700,678
Share of other comprehensive income of associates and joint ventures							
Exchange rate differences			27,956	27,956			27,956
Other changes							
Total amount recognised directly in equity (Other comprehensive income)			**1,739,561**	**1,739,561**	**34,637**		**1,774,198**
Net result			987,465	987,465	56,774		1,044,239
Total comprehensive income			**2,727,026**	**2,727,026**	**91,411**		**2,818,437**
Changes in the composition of the group			-48,597	-48,597			-48,597
Dividend				-615,255			-615,255
Balance as at 31 December 2016	**22,689**	**3,228,030**	**12,643,799**	**15,894,518**	**621,392**	**450,000**	**16,965,910**

1 As of 2016 a more detailed split has been made between realised and unrealised revaluations, for comparison reason 2015 also had been changed accordingly

	Share capital	Share premium	Reserves	Total Shareholder's equity (parent)	Minority interest	Undated subordinated loan	Total equity
Balance as at 1 January 2015	**22,689**	**3,703,030**	**10,481,295**	**14,207,014**	**409,332**	**450,000**	**15,066,346**
Unrealised revaluations available-for-sale investments and other[1]			-480,914	-480,914	4,295		-476,619
Realised gains/losses transferred to the profit and loss account[1]			-306,928	-306,928			-306,928
Changes in cash flow hedge reserve			-435,285	-435,285			-435,285
Deferred interest credited to policyholders			543,317	543,317			543,317
Share of other comprehensive income of associates and joint ventures							
Exchange rate differences			9,297	9,297			9,297
Other changes							
Total amount recognised directly in equity (Other comprehensive income)			**-670,513**	**-670,513**	**4,295**		**-666,218**
Net result			1,069,827	1,069,827	70,954		1,140,781
Total comprehensive income			**399,314**	**399,314**	**75,249**		**474,563**
Changes in the composition of the group			5,271	5,271	45,400		50,671
Dividend		-475,000	-305,255	-780,255			-780,255
Balance as at 31 December 2015	**22,689**	**3,228,030**	**10,580,625**	**13,831,344**	**529,981**	**450,000**	**14,811,325**

1 As of 2016 a more detailed split has been made between realised and unrealised revaluations, for comparison reason 2015 also had been changed accordingly

Notes to the Consolidated annual accounts

NN Leven is a public limited liability company (naamloze vennootschap) incorporated under Dutch law and domiciled in Rotterdam, the Netherlands. NN Leven is recorded in the Commercial Register, no. 24042211. 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 endorsed by the European Union ('IFRS-EU') and Part 9 of Book 2 of the Dutch Civil Code. In the Consolidated 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-EU as was already applied by its parent company as of 2005. For the recognition and measurement of the insurance liabilities this included a continuation of the accounting standards generally accepted in the Netherlands ('Dutch GAAP') as of 2005. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU,
- NN Leven's accounting policy for real estate investments is fair value, with changes in the 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 policy choices made by NN Leven. The accounting policies that are most significant to NN Leven are included in the section 'Critical accounting policies'.

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

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

Upcoming changes in IFRS-EU

In 2016, no changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Leven. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2016 and are relevant 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. 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 NN Leven'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 changes in classification will occur. The classification of financial liabilities remains unchanged.

Impairment

The recognition and measurement of impairments 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 twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. NN Leven will have the option to continue applying IAS 39 for hedge accounting.

NN Leven is currently assessing the impact of the new requirements. The implementation of IFRS 9 may have a significant impact on shareholder's equity, net result and/or other comprehensive income.

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment'). This Amendment addresses the issue arising from the different (expected) effective dates of IFRS 9 and the upcoming new standard on accounting for insurance contracts. The Amendment allows applying a temporary exemption from implementing IFRS 9 until the earlier of the effective date of the upcoming new standard on accounting for insurance contract and 1 January 2021. This exemption is only available to entities whose activities are predominantly connected with insurance (measured at a 31 December 2015 reference date). NN Leven's activities are predominantly connected with insurance as defined in this Amendment and, therefore, NN Leven qualifies for this deferred effective date of IFRS 9. The Amendment is not yet endorsed by the EU. NN Leven expects to apply the temporary exemption and, therefore, NN Leven expects to implement IFRS 9 in 2021.

Other

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue other than arising from insurance contracts and financial instruments. The implementation of IFRS 15 is not expected to have a significant impact on the Consolidated annual accounts of NN Leven.

IFRS 16 'Leases'

IFRS 16 is effective as of 1 January 2019, subject to endorsement by the EU. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16, if and when endorsed by the EU, is not expected to have a significant impact on shareholder's equity and net result of NN Leven.

Other upcoming changes in accounting policies

Reserve Adequacy Test (RAT)

As of 1 January 2017, NN Leven changed its accounting policy for the Reserve Adequacy Test. The policy that is applied until 2016 is set out below in the section 'Accounting policies for specific items - Insurance contracts, reinsurance contracts - Adequacy test'. As of 1 January 2017, the following policy will apply:

The adequacy of the insurance liabilities, net of DAC (the net insurance liabilities), is evaluated at each reporting period. The test involves comparing the established net insurance liability to a liability based on current best estimate actuarial assumptions. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums, as a result (part of) the revaluation reserve in shareholders equity is taken into account in assessing the adequacy of insurance liabilities.

If the established insurance liability is lower than the liability based on current best estimate actuarial assumptions the shortfall is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be more than adequate no reduction in the net insurance liabilities is recognised.

The difference between the new policy and the policy applied until 2016 is that in the new policy the adequacy is assessed by comparing the balance sheet liability to a best estimate liability; in the policy applied until 2016 it is compared to a liability with a 50% and 90% confidence level.
The new policy aligns better to current market practice. The change represents a change in accounting policy under IFRS and will be implemented retrospectively. The change will not have significant impact on shareholder's equity and/or net result.

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 judgements and assumptions, and relate to insurance contracts, 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. All valuation techniques used are subject to internal review and approval. 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.

Reference is made to Note 43 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Insurance liabilities and Deferred acquisition costs ('DAC')

The determination of insurance liabilities and DAC is an inherently uncertain process, involving assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, court decisions, changes in laws and other factors, and, in the life insurance business, 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.

Insurance liabilities 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.

Notes to the Consolidated annual accounts
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The use of different assumptions could have a significant effect on insurance liabilities, DAC and underwriting expenditure. Changes in assumptions may lead to changes in insurance liabilities over time.

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

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 investments.

Reference is made to Note 29 'Fair value of non-financial assets' for more disclosure on fair value of real estate investments at the balance sheet date.

The use of different assumptions and techniques could produce significantly different valuations.

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, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account.

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

Reference is made to Note 28 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments
All debt and equity securities (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally 25% and six months are used as triggers. Upon impairment of available-for-sale debt and equity securities the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event after the impairment. Impairments on equity securities cannot be reversed.

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

General accounting policies
Consolidation
NN Leven comprises Nationale-Nederlanden Levensverzekering Maatschappij N.V. and all its subsidiaries. The Consolidated annual accounts of NN Leven comprise the accounts of Nationale-Nederlanden Levensverzekering Maatschappij N.V. and all entities over which NN Leven has control. NN Leven has control over an entity when NN Leven is exposed to, or has rights to, variable returns from its involvement with the entity

and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Leven and the entity and considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

For interests in investment entities, the existence of control is determined taking into account both NN Leven's financial interests for own risk and its role as asset 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 gains and losses 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.

A list of principal subsidiaries is included in Note 38 'Principal subsidiaries'.

Foreign currency translation

Functional and presentation currency

Items included in the Annual accounts of each NN Leven 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.

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 and liabilities 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 (generally FIFO).

Fair value of financial assets and liabilities

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

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques, based on market conditions existing at each balance sheet date. An active market for the financial instrument is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assessing whether a market is active requires judgement, considering factors specific to the financial instrument.

Reference is made to Note 28 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Notes to the Consolidated annual accounts
Continued

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 at the same time.

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

In certain circumstances NN 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 value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account ('loan loss provisions') and the amount of the loss is recognised in the profit and loss account in investment income. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the profit and loss account.

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

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

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 36 'Contingent liabilities and commitment' 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 is explained in Note 43 '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.

Notes to the Consolidated annual accounts
Continued

Taxation
NN Leven is part of the Dutch fiscal unity for corporate income tax purposes of NN Group making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group.

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.

Current tax consists of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainly related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses carried forward where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Unrecognised deferred tax assets are reassessed periodically and recognised to the extent that is probable that future taxable profits will be available against which they can be used. Deferred tax is provided on temporary differences arising from investments in subsidiaries and, 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 used.

Offsetting deferred tax assets with deferred tax liabilities is allowed as long as there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on the same entity or on the same fiscal unity.

Employee benefits
Defined contribution pension plans
For defined contribution plans NN 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 as staff expenses in the profit and loss account when they are due.

Share-based payments
Share-based payment expenses, are recognised as staff expenses over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date.

Interest income and expenses
Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, NN 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 Consolidated statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the profit and loss account, and changes in balance sheet items, which do not result in actual cash flows during the year.

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. Investments qualify as a cash equivalent if they are readily convertible into a known amount of cash and are not subject to significant risk of changes in value.

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

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 3 and 15)

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

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

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.

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 derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge) or hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the hedge transaction NN 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 previously reported in equity is transferred immediately to the profit and loss account.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the profit and loss account over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the profit and loss account only when the hedged item is derecognised.

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.

Certain derivatives embedded in other contracts are measured as separate derivatives if;

- Their economic characteristics and risks are not closely related to those of the host contract
- The host contract is not carried at fair value through profit or loss
- 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)

Notes to the Consolidated annual accounts
Continued

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.

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 the profit and loss account: in investment income. 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 the profit and loss account in investment income 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 of 20% or more of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

- Representation on the board of directors
- Participation in the policy making process
- Interchange of managerial personnel

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.

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 value 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 entities the existence of significant influence is determined taking into account both NN Leven's financial interests for own risk and its role as asset manager.

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

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

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- 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.

Real estate investments (Note 7)
Real estate investments are initially measured at cost, including transaction cost and are subsequently measured at fair value. Changes in the carrying value 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 real estate investments are appraised at least annually.

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 value 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: two to five years for data processing equipment, and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated. The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account in other income.

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 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 business, consist principally of commissions, certain underwriting and contract issuance expenses, and certain agency expenses.

For the majority of the life insurance contracts DAC is amortised over a fixed period of time. For other types of 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 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.

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Subordinated debt, Other borrowed funds (Note 12 and 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 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 derecognised from the balance sheet, and the difference between the carrying value of the liability and the consideration paid is recognised 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)
Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2008, NN Leven decided to adopt IFRS-EU as was already applied by its parent company as of 2005. For the recognition and measurement of the 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. Insurance liabilities 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) insurance contracts using market consistent interest rates and other current estimates and assumptions. Unless indicated otherwise below, changes in the insurance liabilities are recognised in the profit and loss account.

Life insurance liabilities
The life insurance liabilities are generally calculated on the basis of a prudent prospective actuarial method.

Insurance liabilities on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions of insurance liabilities 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, these assumptions are set initially at the policy issue date and remain constant throughout the life of the policy.

Insurance liabilities 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.

Certain contracts contain minimum (interest) guarantees on the amounts payable upon death and/or maturity. The insurance liabilities include the impact of these minimum (interest) guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

Unamortised interest rate rebates on periodic and single premium contracts are deducted from the life insurance contract liabilities. 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 interest credited to policyholders
For insurance contracts with discretionary participation features, deferred interest credited to policyholders is recognised for the full amount of the unrealised revaluations on allocated investments. Upon realisation, the deferred interest credited to policyholders regarding unrealised revaluations is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The amount of deferred profit sharing is reduced by the actual allocation to individual policyholders. The change in amount of deferred interest credited to policyholders on unrealised revaluations (net of tax) is recognised in the revaluation reserve in other comprehensive income (equity).

Liabilities for life insurance for risk of policyholders
Liabilities for life insurance for risk of policyholders 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 recognised for receivables on reinsurance contracts which are deemed uncollectable. Both reinsurance premiums and reinsurance recoveries are included in underwriting expenditure in the profit and loss account.

Notes to the Consolidated annual accounts
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Adequacy test
The adequacy of the insurance liabilities, net of unamortised interest rate rebates and DAC is evaluated regularly. The test involves comparing the established insurance liability with current best estimate reserve including a risk margin. The best estimate reserve makes assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends, court decisions, changes in laws, 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; as a result (part of) the revaluation reserve in shareholders equity is taken into account in assessing the adequacy of insurance liabilities.

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. Investment contract liabilities are determined at amortised cost, using the effective interest method (including certain initial acquisition expenses), or at fair value.

Other liabilities (Note 16)
Provisions
Other liabilities include reorganisation and other provisions. Reorganisation provisions includes 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.

Gross premium income (Note 17)
Premiums from 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. When applying deposit accounting, the amounts contributed by policyholders are recognised as direct increases in the provision for investment contracts, not as premium income and payments are deducted directly from the provision.

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
Continued

2 Cash and cash equivalents

Cash and cash equivalents

	2016	2015
Cash and bank balances	160,388	165,676
Short term deposits	22,044	3,633
Cash and cash equivalents	**182,432**	**169,309**

Deposits included under cash and cash equivalents only represent deposits that are available on demand.

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2016	2015
Investments for risk of policyholders	15,001,771	18,006,193
Non-trading derivatives	3,040,324	3,057,161
Designated as at fair value through profit or loss	234,142	137,147
Financial assets at fair value through profit or loss	**18,276,237**	**21,200,501**

Investments for risk of policyholders

	2016	2015
Equity securities	14,166,921	17,185,092
Debt securities	13,264	23,879
Loans and receivables	821,586	797,222
Investments for risk of policyholders	**15,001,771**	**18,006,193**

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

Non-trading derivatives

	2016	2015
Derivatives used in:		
- hedges of net investments in foreign operations	9,694	46
- fair value hedges	85,885	
- cash flow hedges	2,364,142	2,704,877
Other non-trading derivatives	580,603	352,238
Non trading derivatives	**3,040,324**	**3,057,161**

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

Designated as at fair value through profit or loss

	2016	2015
Equity securities	217,673	128,292
Debt securities	11,895	3,800
Other	4,574	5,055
Designated as at fair value through profit or loss	**234,142**	**137,147**

Notes to the Consolidated annual accounts
Continued

4 Available-for-sale investments

Available-for-sale investments

	2016	2015
Equity securities	5,556,953	5,579,932
Debt securities	46,378,523	42,488,960
Available-for-sale investments	**51,935,476**	**48,068,892**

The cost price of the equity securities amounts to EUR 4,277 million (2015: EUR 4,444 million). The cost price of the debt securities amounts to EUR 35,654 million (2015: EUR 34,341 million).

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2016	2015	2016	2015	2016	2015
Available-for-sale investments - opening balance	5,579,932	5,397,073	42,488,960	40,304,624	48,068,892	45,701,697
Additions	596,333	662,773	3,897,485	4,753,582	4,493,818	5,416,355
Amortisation			-61,863	-51,779	-61,863	-51,779
Transfers and reclassifications	-311,647	-1,499			-311,647	-1,499
Changes in unrealised revaluations	180,606	612,485	2,629,376	-1,330,817	2,809,982	-718,332
Impairments	-66,560	-101,971	0		-66,560	-101,971
Disposals and redemptions	-377,921	-1,008,420	-2,548,150	-1,280,874	-2,926,071	-2,289,294
Exchange rate differences	-43,790	19,201	-27,285	94,234	-71,075	113,435
Changes in the composition of the group and other changes		290		-10		280
Available-for-sale investments - closing balance	**5,556,953**	**5,579,932**	**46,378,523**	**42,488,960**	**51,935,476**	**48,068,892**

Transfers and reclassifications in 2016 concerns transfers of investments in real estate funds from available-for-sale investments to associates and joint ventures.

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

Total exposure to debt securities

	2016	2015
Available-for-sale investments	46,378,523	42,488,960
Loans	2,117,284	2,822,269
Available-for-sale investments and Loans	**48,495,807**	**45,311,229**
Investments for risk of policyholders	13,264	23,879
Designated as at fair value through profit or loss	11,895	3,800
Financial assets at fair value through profit or loss	**25,159**	**27,679**
Total exposure to debt securities	**48,520,966**	**45,338,908**

NN Leven's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' of EUR 48,496 million (2015: EUR 45,311 million) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale-investments		Loans		Total	
	2016	2015	2016	2015	2016	2015
Government bonds	37,069,435	36,182,247			37,069,435	36,182,247
Corporate bonds	6,394,347	4,565,303			6,394,347	4,565,303
Financial institution bonds	2,914,741	1,741,410			2,914,741	1,741,410
ABS portfolio			2,117,284	2,822,269	2,117,284	2,822,269
Debt securities - Available-for-sale investments and Loans	**46,378,523**	**42,488,960**	**2,117,284**	**2,822,269**	**48,495,807**	**45,311,229**

Available-for-sale equity securities

	2016	2015
Listed	3,634,204	3,372,871
Unlisted	1,922,749	2,207,061
Available-for-sale equity securities	**5,556,953**	**5,579,932**

Notes to the Consolidated annual accounts
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Reclassifications to loans (2009)

As per reclassification date	Q2 2009
Fair value	5,712,651
Range of effective interest rates	1.4% - 24.8%
Expected recoverable cash flows	6,978,293
Unrealised fair value losses in Shareholder's equity (before tax)	-924,808
Recognised fair value gains/(losses) in Shareholder's equity (before tax) between the beginning of the year in which the reclassification occured and the reclassification date	98,684
Recognised fair value gains/(losses) in Shareholder's equity (before tax) in the year prior to reclassification	-1,049,252
Impairment (before tax) between the beginning of the year in which the reclassification occured and the reclassification date	nil
Impairment (before tax) in the year prior to reclassification	nil

For the years after reclassification	2016	2015	2014	2013	2012	2011	2010	2009
Carrying value	395,499	522,839	796,838	930,110	1,721,627	3,009,888	4,391,927	5,462,723
Fair value	511,880	659,778	968,824	1,083,842	1,679,254	2,837,313	4,521,162	5,779,623
Unrealised fair value gains/losses in shareholder's equity (before tax)	-169,621	-200,991	-210,361	-246,935	-184,081	-303,041	-484,620	-723,307
Effect on shareholder's equity (before tax) if reclassification had not been made	116,381	136,939	171,986	153,732	-42,373	-172,575	129,234	316,900
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (interest income and sales result)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	111,187
Effect on result (before tax) for the year (mainly interest income)	-3,075	1,724	3,849	-20,669	52,702	88,918	80,436	n.a.
Impairment (before tax)	nil	nil	nil	nil	nil	nil	nil	nil
Provision for credit losses (before tax)	209	nil	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 a significant amount of the reclassified assets continue to be recognised in the balance sheet.

5 Loans

Loans

	2016	2015
Loans secured by mortgages	12,648,629	11,735,243
Unsecured loans	4,436,447	4,006,177
Asset backed securities	2,117,284	2,822,269
Deposits	217,060	210,370
Policy loans	18,915	23,013
Other	51,866	72,016
Loans before Loan loss provisions	**19,490,201**	**18,869,088**
Loans loss provisions	-39,666	-49,121
Loans	**19,450,535**	**18,819,967**

Changes in Loan secured by mortgages

	2016	2015
Loans secured by mortgages – opening balance	11,735,243	10,259,569
Additions/ origination	2,107,238	2,474,434
Redemption	-1,135,496	-855,115
Amortisation	-44,347	-46,264
Transfers to/from assets/liabilities		-90,154
Impairments and write-offs	-14,009	-7,227
Loans secured by mortgages – closing balance	**12,648,629**	**11,735,243**

Changes in Loan loss provisions

	2016	2015
Loan loss provisions - opening balance	49,121	43,700
Write-offs	-18,204	-8,605
Recoveries	948	681
Increase in Loan loss provisions	7,801	21,357
Other changes		-8,012
Loan loss provisions - closing balance	**39,666**	**49,121**

Loan loss provisions relate for EUR 28,380 thousand (2015: EUR 34,809 thousand) to 'Loans secured by mortgages'.

6 Associates and joint ventures

Associates and joint ventures (2016)

	Interest held (%)	Balance sheet value	Total assets	Total liablities	Total income	Total expenses
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50	68,412	136,824			
CBRE Dutch Office Fund F.G.R	26	319,712	1,511,193	268,452	196,349	46,920
Parcom Investment Fund III B.V.	100	191,540	214,900	23,300	120,200	10,400
CBRE UK Property Fund L.P.	10	168,913	1,727,636	0	23,470	11,771
Parcom Investment Fund II B.V.	100	205,149	205,300	200	41,100	300
CBRE Retail Property Fund Iberica L.P.	33	217,924	1,401,190	740,641	225,275	40,323
Parcom Buy Out Fund IV B.V.	100	125,913	145,100	19,200	6,400	2,900
CBRE Property Fund Central Europe L.P.	25	132,289	893,704	364,549	51,743	5,621
Allee center Kft	50	110,984	237,526	15,559	32,898	7,548
CBRE European Industrial Fund C.V.	18	100,661	750,789	200,928	48,237	19,591
Fiumaranuova s.r.l.	50	95,005	219,284	28,893	42,026	8,217
Parquest Capital B FCPI	40	83,520	226,300	1,800	42,000	5,600
Le Havre LaFayette SNC /Vauban (Esp Cot)	50	59,294	143,131	24,543	15,574	4,432
DPE Deutschland II B GmbH & Co KG	34	91,400	295,100	11,100	39,900	12,300
CBRE Property Fund Central and Eastern Europe F.G.R.	21	51,231	575,492	326,680	29,177	48,281
Delta Mainlog Holding GmbH & Co. KG	50	51,050	103,000	1,258	13,614	1,445
CBRE Dutch Retail Fund FGR	18	177,823	1,508,752	505,055	69,421	51,192
CBRE Dutch Retail fund II FGR	10	79,840	808,250	9,850	41,234	4,432
Other		345,902				
Associates and joint ventures		**2,676,562**				

The above associates and joint ventures mainly consist of non-listed investment entities investing in real estate and private equity.

Significant influence exists for certain 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 relevant boards.

NN Leven holds associates over which it cannot exercise control despite holding more than 50% of the share capital. For this reason these are classified as associates and are not consolidated.

Other represents associates and joint ventures with an individual balance sheet value of less than EUR 50 million. The amounts presented in the table above could differ from the individual annual accounts of the associates due to the fact that the individual amounts were 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 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.

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Associates and joint ventures (2015)

	Interest held (%)	Balance sheet value	Total assets	Total liablities	Total income	Total expenses
CBRE Dutch Office Master Fund I C.V.	27	292,164	1,335,260	235,997	221,983	46,979
Parcom Investment Fund III B.V.	100	216,152	233,430	17,278	64,573	6,058
CBRE UK Property Fund L.P.	23	200,823	892,157		133,257	28,143
Parcom Investment Fund II B.V.	100	185,731	205,290	19,558	98,076	916
CBRE Retail Property Fund Iberica L.P.	31	183,877	1,315,670	712,332	226,843	41,997
Parcom Buy Out Fund IV B.V.	100	144,451	163,271	18,094	161,208	6,058
CBRE Property Fund Central Europe L.P.	25	116,469	885,339	419,463	71,342	465
Allee Center Kft.	50	103,128	223,531	17,276	26,633	7,954
CBRE European Industrial Fund C.V.	27	100,890	573,335	191,418	64,957	22,680
Fiumaranuova s.r.l.	50	87,082	199,334	37,958	22,567	8,060
Parquest Capital B FPCI	40	62,364	167,709	18,088	5,102	6,900
SNC Le Havre Lafayette	50	57,712	139,192	23,768	21,314	4,127
DPE Deutschland II B GmbH & Co.KG	34	54,072	161,092	280	12,961	910
CBRE Property Fund Central and Eastern Europe FGR	21	52,226	618,579	364,931	42,570	47,189
The Capital (London) Fund	20	51,062	255,310		30,226	
Other		266,789				
Associates and joint ventures		**2,174,992**				

Changes in Associates and joint ventures

	2016	2015
Associates and joint ventures - opening balance	2,174,992	2,296,267
Additions	311,798	90,347
Disposals	-354,671	-278,520
Transfer to/from Available-for-sale investments	311,647	
Share in change in equity (revaluations)	2,845	10,355
Share of results	376,593	472,297
Dividends received	-116,238	-183,983
Capital repayments		-245,991
Exchange rate differences	-30,415	14,220
Changes in the composition of the group and other changes	11	
Associated and joint ventures - closing balance	**2,676,562**	**2,174,992**

Disposals in 2016 and 2015 mainly relate to the sale of investments in real estate funds.

7 Real estate investments

Changes in Real estate investments

	2016	2015
Real estate investments - opening balance	1,569,114	1,154,893
Additions	399,939	389,180
Disposals	-11	-10
Transfer to/from Other assets	1,982	1,160
Fair value gains/(losses)	58,521	22,333
Other changes	-3	1,558
Real estate investments - closing balance	**2,029,542**	**1,569,114**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2016 is EUR 141 million (2015: EUR 119 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to real estate investments for the year ended 31 December 2016 is EUR 43 million (2015: EUR 33 million).

Real estate investments by year of most recent appraisal

In percentages	2016	2015
Most recent appraisal in current year	100%	100%

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

Real estate exposure

	2016	2015
Real estate investments	2,029,542	1,569,114
Investments - available-for-sale	973,135	1,054,379
Associates and joint ventures	1,843,225	1,436,274
Other assets - Property obtained from foreclosures	1,313	3,712
Total Real estate exposure	**4,847,226**	**4,063,479**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 6.5 billion (2015: EUR 5.0 billion). Reference is made to Note 43 'Risk management'.

8 Intangible assets

Changes in Intangible assets

	2016	2015
Intangible assets - opening balance	9,358	6,741
Additions		45
Capitalised expenses	1,300	2,900
Amortisation	-1,476	-330
Other changes	-104	2
Intangible assets - closing balance	**9,078**	**9,358**
Gross carrying value	35,746	34,550
Accumulated amortisation	-26,668	-25,192
Net carrying value	**9,078**	**9,358**

Intangible assets consist of software (in development). The amortisation is included in the profit and loss account in 'Other operating expenses'.

9 Deferred acquisition costs

Changes in Deferred acquisition costs

	2016	2015
Deferred acquisition costs - opening balance	264,577	293,571
Capitalised	10,476	13,016
Amortisation	-31,570	-42,502
Exchange rate differences	-2	492
Deferred acquisition costs - closing balance	**243,481**	**264,577**

The capitalised acquisition costs in 2015 and 2016 are completely related to the Czech business.

10 Other assets

Other assets

	2016	2015
Reinsurance and insurance receivables	192,448	138,509
Deferred tax assets	23	54
Property obtained from foreclosures	1,313	3,712
Income tax receivable	5,704	62,565
Accrued interest and rents	952,571	973,539
Other accrued assets	15,451	8,950
Other	1,187,016	327,166
Other assets	**2,354,526**	**1,514,495**

For disclosures in respect of 'Deferred tax assets' reference is made to Note 27 'Taxation'. Other contains EUR 749 million (2015: EUR 114 million) of current accounts with NN Group companies.

Notes to the Consolidated annual accounts
Continued

Insurance and reinsurance receivables

	2016	2015
Receivables on account of direct insurance from:		
- policyholders	171,127	99,356
- intermediaries	1,883	3,469
Reinsurance receivables	19,438	35,684
Insurance and reinsurance receivables	**192,448**	**138,509**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 6,222 thousand as at 31 December 2016 (2015: EUR 7,611 thousand). The receivable is presented net of this allowance.

11 Equity

Total equity

	2016	2015
Share capital	22,689	22,689
Share premium	3,228,030	3,228,030
Revaluation reserve	8,580,506	6,868,901
Currency translation reserve	-47,635	-75,590
Other reserves	4,110,928	3,787,314
Shareholder's equity (parent)	**15,894,518**	**13,831,344**
Minority interests	621,392	529,981
Undated subordinated notes	450,000	450,000
Total equity	**16,965,910**	**14,811,325**

Share capital

	Shares (in number)		Ordinary shares	
	2016	2015	2016	2015
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. The authorised ordinary share capital of NN Leven consists of 22,689,015 shares, of which as at 31 December 2016, 4,537,803 shares have been issued and fully paid.

Distributable reserves
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 total shareholder's equity less the issued and outstanding capital and less the reserves required by law. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

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.

Changes in Share premium

	2016	2015
Share premium - opening balance	3,228,030	3,703,030
Dividend		-475,000
Share premium - closing balance	**3,228,030**	**3,228,030**

Changes in Revaluation reserve (2016)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	2,900,511	3,968,390	6,868,901
Unrealised revaluations[1]	2,152,946		2,152,946
Realised gains/losses transferred to the profit and loss account[1]	-193,964		-193,964
Changes in cash flow hedge reserve		453,301	453,301
Deferred interest credited to policyholders	-700,678		-700,678
Revaluation reserve - closing balance	**4,158,815**	**4,421,691**	**8,580,506**

Notes to the Consolidated annual accounts
Continued

Changes in Revaluation reserve (2015)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	3,145,036	4,403,675	7,548,711
Unrealised revaluations[1]	-480,914		-480,914
Realised gains/losses transferred to the profit and loss account[1]	-306,928		-306,928
Changes in cash flow hedge reserve		-435,285	-435,285
Deferred interest credited to policyholders	543,317		543,317
Revaluation reserve - closing balance	**2,900,511**	**3,968,390**	**6,868,901**

1 As of 2016 a more detailed split has been made between realised and unrealised revaluations, for comparison reason 2015 also had been changed accordingly

Deferred interest credited to policyholders reflects the change in the deferred profit sharing liabilities (net of deferred tax). References are made to Note 14 'Insurance and investment contracts, Reinsurance contracts'.

Changes in Currency translation reserve

	2016	2015
Currency translation reserves - opening balance	-75,590	-84,887
Exchange rate differences[1]	27,955	9,297
Currency translation reserves - closing balance	**-47,635**	**-75,590**

1 Exchange rate differences includes a partial release of negative currency translation reserve to the retained earnings

Changes in Other reserves (2016)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	3,508,154	279,160	3,787,314
Net result for the period	987,465		987,465
Transfer to/from Share of associates reserve	-3,223	3,223	0
Dividend	-600,000		-600,000
Coupon on undated subordinated notes	-15,255		-15,255
Other changes[1]	-48,597		-48,597
Other reserves - closing balance	**3,828,544**	**282,383**	**4,110,927**

1 Other changes relates to a subsidiary , for which a partial release of negative currency translation reserve to the retained earnings was recognised

Changes in Other reserves (2015)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	2,852,269	165,202	3,017,471
Net result for the period	1,069,827		1,069,827
Transfer to/from Share of associates reserve	-127,778	127,778	
Dividend	-290,000		-290,000
Coupon on undated subordinated notes	-15,255		-15,255
Other changes	19,091	-13,820	5,271
Other reserves - closing balance	**3,508,154**	**279,160**	**3,787,314**

Undated subordinated loan

Interest rate	Year of Issue	Due date	Notional amount	Balance sheet value 2016	Balance sheet value 2015
4.520%	2014	Perpetual	450,000	450,000	450,000

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.

Notes to the Consolidated annual accounts
Continued

12 Subordinated debt

Subordinated debt

Interest rate	Year of Issue	Due date	First call date	Notional amount		Balance sheet value	
				2016	2015	2016	2015
5.600%	2014	10-Feb-44	10-Feb-24	600,000	600,000	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

	2016	2015
Other borrowed funds - opening balance	2,053,759	747,555
Additions	2,364,798	2,105,106
Disposals	-2,440,491	-798,902
Other borrowed funds - closing balance	**1,978,068**	**2,053,759**

In October 2016 NN Leven entered into a short-term borrowing facility with NN Finance with due date on 31 January 2017 for a notional amount of EUR 1,500 million.

In November 2016 a loan agreement was signed with Nationale-Nederlanden Interfinance B.V. ('NN Interfinance'). The facility has a notional amount of EUR 250 million.

14 Insurance and investment contracts, Reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance and investment contracts		Reinsurance contracts		Insurance and investment contracts	
	2016	2015	2016	2015	2016	2015
Non-participating life policy liabilities	4,852,215	5,130,510	47,577	55,115	4,899,792	5,185,625
Participating life policy liabilities	44,990,926	42,194,924	619,159	645,497	45,610,085	42,840,421
Liabilities for (deferred) profit sharing and rebates	6,854,179	5,952,082			6,854,179	5,952,082
Life insurance liabilities excluding liabilities for risk of policyholders	**56,697,320**	**53,277,516**	**666,736**	**700,612**	**57,364,056**	**53,978,128**
Life insurance liabilities for risk of policyholders	14,920,317	17,954,505	475,487	458,400	15,395,804	18,412,905
Life insurance liabilities	**71,617,637**	**71,232,021**	**1,142,223**	**1,159,012**	**72,759,860**	**72,391,033**
Investment contracts for risk of company	678,245	713,879			678,245	713,879
Investment contracts for risk of policyholders			15,730	33,572	15,730	33,572
Investment contracts liabilities	**678,245**	**713,879**	**15,730**	**33,572**	**693,975**	**747,451**
Insurance and investment contracts, reinsurance contracts	**72,295,882**	**71,945,900**	**1,157,953**	**1,192,584**	**73,453,835**	**73,138,484**

The liabilities for insurance and investment contracts are 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.

The NN Leven insurance liabilities are approximately adequate at the 90% confidence level.

Notes to the Consolidated annual accounts
Continued

Changes in Life insurance liabilities

	Net life insurance liabilities[1]		Net liabilities for risk of policyhouders[2]		Reinsurance contracts		Life insurance liabilities	
	2016	2015	2016	2015	2016	2015	2016	2015
Life insurance liabilities - opening balance	53,277,516	51,718,880	17,954,505	20,843,326	1,159,012	1,156,605	72,391,033	73,718,811
Current years liabilities	1,501,939	1,881,650	525,761	601,174	8,380	9,707	2,036,080	2,492,531
Change in deferred profit sharing liability	934,891	-725,493					934,891	-725,493
Prior year liabilities								
-benefit payments to policyholders	-3,743,950	-3,723,163	-1,778,524	-1,801,666	-9,695	-11,808	-5,532,169	-5,536,637
-interest accrual and changes in fair value of liabilities	2,599,266	2,378,451			1,154	1,127	2,600,420	2,379,578
-valuation changes for risk of policyholders			963,107	652,691			963,107	652,691
Exchange rate differences	2,713	25,297	1	10,435	111	206	2,825	35,938
Other changes[3]	2,124,945	1,721,894	-2,744,533	-2,351,455	-16,739	3,175	-636,327	-626,386
Life insurance liabilities - closing balance	**56,697,320**	**53,277,516**	**14,920,317**	**17,954,505**	**1,142,223**	**1,159,012**	**72,759,860**	**72,391,033**

1 Net of reinsurance and liabilities for risk of policyholders
2 Net of reinsurance
3 Other changes include insurance contracts for risk of policyholders with guarantees that were extended as general account contracts, and the transfer of certain insurance contracts

Where discounting is used in the calculation of life insurance liabilities, the rate is within the range of 1.8% to 4% (2015: 1.8% 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 2016, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 1,177 million (2015: EUR 1,228 million).

Changes in Investment contracts

	2016	2015
Investment contracts - opening balance	747,451	794,356
- payments to contract holders	-74,426	-48,566
- valuation changes investments		418
- interest accrual[1]	20,961	
Exchange rate differences	-11	1,243
Investment contracts - closing balance	**693,975**	**747,451**

1 The interest accural for 2015 was EUR 23 million and was included in the financial assets at fair value through profit and loss

Liabilities for (deferred) profit sharing and rebates

	2016	2015
Profit sharing for policyholders	226,407	259,195
Deferred profit sharing liability (individual)	6,627,772	5,692,887
Liabilities for (deferred) profit sharing and rebates	**6,854,179**	**5,952,082**

Changes in Liabilities for (deferred) profit sharing and rebates

	2016	2015
Profit sharing for policyholders		
Liabilities for (deferred) profit sharing and rebates - opening balance	259,195	241,361
Profit sharing allocated to policyholders	-84,902	-48,582
Profit sharing dependent on business results	52,117	66,625
Other changes	-3	-209
Liabilities for (deferred) profit sharing and rebates - closing balance	**226,407**	**259,195**
Deferred profit sharing liability (individual)		
Deferred profit sharing liability (individual) - opening balance	5,692,887	6,416,108
Allocation of share in unrealised revaluations	934,891	-725,493
Other changes	-6	2,272
Deferred profit sharing liability (individual) - closing balance	**6,627,772**	**5,692,887**

15 Financial liabilities at fair value through profit or loss

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

Non trading derivatives

	2016	2015
Derivatives used in:		
- fair value hedges	202	
- cash flow hedges	370,431	173,293
- hedges of net investments in foreign operations	864	
Other non-trading derivatives	374,028	365,331
Non-trading derivatives	**745,525**	**538,624**

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

16 Other liabilities

Other liabilities

	2016	2015
Deferred tax liabilities	2,513,515	1,875,737
Other staff-related liabilities	166	240
Other taxation and social security contributions	24,534	46,111
Deposits from reinsurers	1,079,824	1,114,555
Accrued interest	74,747	74,771
Costs payable	14,265	26,696
Amounts payable to brokers	2,223	2,056
Amounts payable to policyholders	677,522	509,859
Reorganisation provisions	13,377	9,055
Other provisions	11,321	10,317
Amounts to be settled	108,708	124,750
Other	52,296	47,574
Other liabilities	**4,572,498**	**3,841,721**

Reorganisation provisions were recognised for operations in NN Leven for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2016 and 2015 due to additional initiatives announced during those years. During 2016 EUR 10 million was charged to the reorganisation provisions for the cost of workforce reductions (2015: EUR 27 million). The remaining reorganisation provisions at the balance sheet date represents the best estimate of the expected future redundancy costs for next years and is expected to be sufficient to cover the remaining costs of the restructuring programme.

For disclosures in respect of deferred tax liabilities references is made to Note 27 'Taxation'.

Notes to the Consolidated annual accounts
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17 Gross premium income

Premiums written – net of reinsurance

	Gross		Reinsurance		Net of reinsurance	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Insurance for risk of insurer	1,737,096	2,098,784	93,016	97,079	1,644,080	2,001,705
Insurance for risk of policyholders	649,586	765,706	72,562	88,263	577,024	677,443
Total	**2,386,682**	**2,864,490**	**165,578**	**185,342**	**2,221,104**	**2,679,148**

Gross premium income (2016)

	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	237,697	42,524	195,173	248,924	67,793	181,131
– with profit sharing	445,145	48,722	396,423			
	682,842	**91,246**	**591,596**	**248,924**	**67,793**	**181,131**
Group						
– without profit sharing	43,874		43,874	219,041		219,041
– with profit sharing	462,356	1,770	460,586	86,653		86,653
	506,230	**1,770**	**504,460**	**305,694**		**305,694**
Total regular premiums	**1,189,072**	**93,016**	**1,096,056**	**554,618**	**67,793**	**486,825**
Single premiums						
Individual						
– without profit sharing	79,392		79,392	8,258	4,769	3,489
– with profit sharing	199,601		199,601			
	278,993		**278,993**	**8,258**	**4,769**	**3,489**
Group						
– without profit sharing	131,684		131,684	43,914		43,914
– with profit sharing	137,347		137,347	42,796		42,796
	269,031		**269,031**	**86,710**		**86,710**
Total Single premiums	**548,024**		**548,024**	**94,968**	**4,769**	**90,199**
Total Gross premium income	**1,737,096**	**93,016**	**1,644,080**	**649,586**	**72,562**	**577,024**

Gross premium income is presented before deduction of reinsurance and retrocession premiums. Gross premium income excludes premium received for investment contracts, for which deposit accounting is applied.

Notes to the Consolidated annual accounts
Continued

Gross premium income (2015)

	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	256,104	43,088	213,016	282,486	72,945	209,541
– with profit sharing	493,110	52,685	440,425			0
	749,214	**95,773**	**653,441**	**282,486**	**72,945**	**209,541**
Group						
– without profit sharing	14,688		14,688	169,136		169,136
– with profit sharing	441,492	1,303	440,189	196,350	199	196,151
	456,180	**1,303**	**454,877**	**365,486**	**199**	**365,287**
Total regular premiums	**1,205,394**	**97,076**	**1,108,318**	**647,972**	**73,144**	**574,828**
Single premiums						
Individual						
– without profit sharing	92,289		92,289	18,387	15,119	3,268
– with profit sharing	224,740	3	224,737			0
	317,029	**3**	**317,026**	**18,387**	**15,119**	**3,268**
Group						
– without profit sharing	14,718		14,718	37,904		37,904
– with profit sharing	561,643		561,643	61,443		61,443
	576,361		**576,361**	**99,347**		**99,347**
Total Single premiums	**893,390**	**3**	**893,387**	**117,734**	**15,119**	**102,615**
Total Gross premium income	**2,098,784**	**97,079**	**2,001,705**	**765,706**	**88,263**	**677,443**

Geographical segmentation of gross premium income

	2016	2015
Netherlands	2,231,070	2,689,086
Other EU member states	155,612	175,404
Total	**2,386,682**	**2,864,490**

Reference is made to Note 22 'Underwriting expenditure' for disclosure on reinsurance ceded.

18 Investment income

Investment income

	2016	2015
Income from investments in debt securities	1,114,518	1,113,752
Income from loans:		
- unsecured loans	150,606	138,936
- mortgages loans	501,940	452,790
- policy loans	1,131	1,383
- other	41,667	75,588
Income from Investment in debt securities and loans	**1,809,862**	**1,782,449**
Realised gains/losses on disposal of Available-for-sale debt securities	166,131	113,198
Realised gains/losses on disposal of Available-for-sale debt securities	**166,131**	**113,198**
Realised gains/losses on disposal of Available-for-sale equity securities	80,229	214,129
Impairment of Available-for-sale equity securities	-66,560	-101,971
Realised gains/losses and impairments of Available-for-sale equity securities	**13,669**	**112,158**
Interest income on non-trading derivatives	262,033	325,891
Income from real estate investments	98,205	86,412
Dividend income	211,312	176,002
Increase in loan loss provisions	-7,801	-21,357
Change in fair value of real estate investments	58,520	22,331
Investment income	**2,611,931**	**2,597,084**

19 Net fee and commission income

Net fee and commission income

	2016	2015
Asset management fees	13,562	20,200
Other	2,370	3,799
Gross fee and commission income	**15,932**	**23,999**
Asset management fees	-110,722	-107,221
Insurance brokerage and advisory fees	-1,188	-2,211
Other		-48
Fee and commission expenses	**-111,910**	**-109,480**
Net Fee and commission income	**-95,978**	**-85,481**

20 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2016	2015
Change in fair value of derivatives relating to:		
- fair value hedges	85,885	
- cash flow hedges (ineffective portion)	39,475	-27,417
- other non-trading derivatives	160,765	-37,643
Net result result on non-trading derivatives	**286,125**	**-65,060**
Change in fair value of assets and liabilities (hedged items)	-85,570	
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	-559	4,322
Valuation results on non-trading derivatives	**199,996**	**-60,738**

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 share 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'.

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'. Reference is made to Note 30 'Derivatives and hedge accounting'.

21 Foreign currency results and net trading income

Foreign currency results and net trading income

	2016	2015
Foreign currency results	-31,628	71,920
Net trading income	3,410	-16,395
Foreign currency results and net trading income	**-28,218**	**55,525**

Notes to the Consolidated annual accounts
Continued

22 Underwriting expenditure

Underwriting expenditure

	2016	2015
Gross underwriting expenditure:		
- before effect of investment result for risk of policyholder	3,834,688	4,162,569
- effect of investment result for risk of policyholder	963,107	652,557
Gross underwriting expenditure	**4,797,795**	**4,815,126**
Investment income for risk policyholders	-963,107	-652,557
Reinsurance recoveries	-149,924	-164,150
Underwriting expenditure	**3,684,764**	**3,998,419**

The investment income and valuation results regarding investments for risk of policyholders is EUR 963 million (2015: EUR 653 million). This amount is recognised in 'Underwriting expenditure'. As a result it is shown together with the equal amount of related change in life insurance liabilities for risk of policyholders.

Underwriting expenditure

	2016	2015
Reinsurance and retrocession premiums	165,578	185,342
Gross benefits	4,427,089	4,562,831
Reinsurance recoveries	-149,924	-164,150
Change in life insurance liabilities	-842,959	-681,588
Costs of acquiring insurance business	49,060	53,760
Other underwriting expenditure	10,024	15,267
Profit sharing and rebates	25,896	26,957
Underwriting expenditure	**3,684,764**	**3,998,419**

Gross benefits

	2016	2015
Surrenders	897,522	930,188
Payments upon maturity	1,643,102	1,688,088
Payments upon death	148,374	158,000
Annuities and other periodic payments	1,719,891	1,761,348
Other	18,200	25,207
Gross benefits	**4,427,089**	**4,562,831**

Costs of acquiring insurance business

	2016	2015
Changes in deferred acquisitions costs	21,828	30,746
Brokerage fee	26,564	22,181
Other commissions	668	833
Costs of acquiring insurance business	**49,060**	**53,760**

Profit sharing and rebates

	2016	2015
Distributions on account of interest or underwriting results	-26,222	-39,668
Bonuses added to policies[1]	52,118	66,625
Profit sharing and rebates	**25,896**	**26,957**

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 'Guidelines profit sharing for policies with a participation feature'.

The total costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 49 million (2015: EUR 54 million). This includes amortisation and unlocking of DAC of EUR 32 million (2015: EUR 43 million) and the net amount of commissions paid of EUR 27 million (2015: EUR 24 million) and commissions capitalised in DAC of EUR 10 million (2015: EUR 13 million).

The total amount of commission paid and commission payable amounted to EUR 39 million (2015: EUR 39 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 27 million (2015: EUR 24 million) referred to above and commissions recognised in 'Other underwriting expenditure' of EUR 12 million (2015: EUR 15 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 2 million (2015: EUR 1 million).

Notes to the Consolidated annual accounts
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23 Staff expenses

Staff expenses

	2016	2015
Salaries	117,328	116,408
Pension costs	23,479	23,523
Social security costs	16,606	16,392
Share-based compensation arrangements	977	1,345
External staff costs	71,762	67,261
Education	1,838	1,892
Other staff costs	4,685	4,920
Staff expenses	**236,675**	**231,741**

NN Leven staff are employed by NN Insurance Personeel B.V. ('NN Personeel'). NN Leven is charged for its staff expenses by NN Personeel under a service level agreement. Although these costs are not paid out in the form of staff expenses by NN Leven, they do have the characteristics of staff expenses and they are therefore recognised as such. A provision for holiday entitlement and bonuses is recognised by NN Personeel. Costs will be charged to NN Leven as per when accrued by NN Personeel. Accrual will be recognised when a legal obligation exists, amounts can be estimated and likely that occurrence lead to outflow of resources.

Pension costs
Defined contribution plans
NN Leven is one of the sponsors of the NN Group's defined contribution plan ('NN CDC Pensioenfonds'). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'.

Number of employees

	2016	2015
Netherlands - average number of employees on full-time equivalent basis	1,683	1,711
Rest of Europe - average number of employees on full-time equivalent basis	204	271
Number of employees	**1,887**	**1,982**

Remuneration of Management Board and Supervisory Board
Reference is made to Note 41 'Key management personnel compensation'.

Share plans
NN Group has granted shares to a number of senior executives of NN Leven. The purpose of the share schemes is to attract, retain and motivate senior executives.

Share awards comprise upfront shares and deferred shares. The entitlement to the deferred shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. A retention period of 1 year applies from the moment of vesting these awards.

Change in Share awards outstanding on NN Group shares for NN Leven

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2016	2015	2016	2015
Share awards outstanding - opening balance	53,272	81,703	19.47	14.41
Granted	23,948	35,751	29.45	26.38
Performance effect	4,107	2,501	13.88	15.06
Vested	-42,571	-64,091	20.03	15.45
Forfeited	-3,991	-2,592	22.57	15.65
Share awards outstanding - closing balance	**34,765**	**53,272**	**25.74**	**19.47**

In 2016, 13,398 share awards on NN Group shares (2015: 21,592) were granted to the members of the Management Board of NN Leven. To other employees of NN Leven 10,550 share awards on NN Group shares (2015: 14,159) were granted.

As at 31 December 2016 the share awards on NN Group shares consist of 34,765 share awards (2015: 53,272) relating to equity-settled share based payment arrangements and no shares awards 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 2016 total unrecognised compensation costs related to share awards amount to EUR 166 thousand (2015: EUR 405 thousand). These costs are expected to be recognised over an average period of 1.3 years (2015: 1.4 years).

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 of between EUR 25 and EUR 250 for a period of three years. At the end of the three-year period, employees will receive their savings 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 before the end of the three-year plan period, or if the share price at the end of the plan period is equal to or less than the initial trading price, the amount contributed by the employee is repaid (without addition of any gross gain).

The number of participants is 508 as at 31 December 2016 (2015: 530).

The plan is accounted for as a cash-settled share-based payment plan. The expense recognised in 'Staff expenses' by NN Leven for the 'Sharesave plan' amounts to EUR 430 thousand (2015: EUR 531 thousand).

24 Interest expenses

Interest expenses

	2016	2015
Interest expenses on non-trading derivatives	62,778	103,008
Other interest expenses	41,811	48,429
Interest expenses	**104,589**	**151,437**

Other interest expenses mainly consists of interest on the 'Subordinated debt'.

In 2016, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 1,810 million and EUR 42 million respectively (2015: EUR 1,782 million and EUR 48 million respectively).

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

Total net interest income

	notes	2016	2015
Investment income	18	2,071,895	2,108,340
Interest expenses on non-trading derivatives		-62,778	-103,008
Other interest expenses		-41,811	-48,429
Total net interest income		**1,967,306**	**1,956,903**

25 Other operating expenses

Other operating expenses

	2016	2015
Depreciation of equipment	31	60
Amortisation of software	1,477	330
Computer costs	49,383	48,736
Office expenses	16,793	26,508
Travel and accommodation expenses	2,172	3,401
Advertising and public relations	9,087	8,804
External advisory fees	13,177	17,860
Additions/releases of reorganisation provisions	13,420	8,203
Allocated staff expenses head office support functions	27,675	30,202
Allocated staff expenses services	50,453	38,768
Other	5,126	18,755
Other operating expenses	**188,794**	**201,627**

Reference is made to Note 50 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees.

Notes to the Consolidated annual accounts
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26 Interest and dividend included in net cash flow

Interest and dividend received or paid

	2016	2015
Interest received	2,136,981	2,197,106
Interest paid	-104,589	-151,559
Dividend received	327,550	359,985
Dividend paid	-600,000	-765,000

Interest received, interest paid and dividend received are included in 'Operating activities' in the Consolidated statement of cash flows. Dividend paid is included in 'Financing activities' in the Consolidated statement of cash flows.

27 Taxation

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

Deferred tax (2016)

	Net Liability 2016	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2016[1]
Investments	2,129,624	659,024	-535	-66,010	-2	2,722,101
Real estate investments	139,929		12,945	78,872		231,746
Acquisition costs	53,532		1,327			54,859
Fiscal equalisation reserve	337					337
Depreciation	-325		115			-210
Insurance liabilities	-1,767,032	-234,208	26,864	829	1	-1,973,546
Cash flow hedges	1,316,804	137,751				1,454,555
Other provisions	-2,709		-867	30		-3,546
Receivables	-943		140			-803
Loans	-2,175		5,283	30,086		33,194
Unused tax losses carried forward	-32,925		-2,053	5,110		-29,868
Other	41,566	15,483	-1,317	-31,059		24,673
Deferred tax	**1,875,683**	**578,050**	**41,902**	**17,858**	**-1**	**2,513,492**
Presented in the balance sheet as:						
Deferred tax liabilities	1,875,737					2,513,515
Deferred tax assets	-54					-23
Deferred tax	**1,875,683**					**2,513,492**

1 Positive amounts are liabilities, negative amounts are assets

Notes to the Consolidated annual accounts
Continued

Deferred tax (2015)

	Net Liability 2015	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2015[1]
Investments	2,535,758	-357,108	-46,986	-2,505	465	2,129,624
Real estate investments	92,416		39,384	8,129		139,929
Acquisition costs	50,840		2,634		58	53,532
Fiscal equalisation reserve	337					337
Depreciation	-241		-78		-6	-325
Insurance liabilities	-1,993,012	180,421	46,534	-414	-561	-1,767,032
Cash flow hedges	1,458,837	-142,033				1,316,804
Other provisions	-7,120		4,420		-9	-2,709
Receivables	-1,102		184		-25	-943
Loans	-2,175					-2,175
Unused tax losses carried forward	-14,834		-14,836	-3,255		-32,925
Other	17,353	-3,824	28,149	-197	85	41,566
Deferred tax	**2,137,057**	**-322,544**	**59,405**	**1,758**	**7**	**1,875,683**

Presented in the balance sheet as:		
Deferred tax liabilities	2,137,057	1,875,737
Deferred tax assets		-54
Deferred tax	**2,137,057**	**1,875,683**

1 Positive amounts are liabilities, negative amounts are assets

The portion of the provision for deferred taxes, what relates to REI Investment I B.V. and is not part of the fiscal unity, amounts to EUR 63,656 (a liability) (2015: EUR 39,811 (a liability)).

Deferred tax on unused tax losses carried forward

	2016	2015
Total unused tax losses carried forward	202,893	195,571
Unused tax losses carrried forward not recognised as a deferred tax asset[1]	-90,215	-76,781
Unused tax losses carrried forward recognised as a deferred tax asset[2]	**112,678**	**118,790**
Average tax rate	26.5%	27.7%
Deferred tax asset	**29,868**	**32,925**

1 Unused tax losses carried forward that are not recognised as a deferred tax asset come from the subsidiaries Private Equity investments II 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 subsidiaries Private Equity Investments II B.V. and REI Investment I B.V..

Total unused tax losses carried forward analysed by term of expiration

	No deferred tax assset recognised		Deferred tax assset recognised	
	2016	2015	2016	2015
Within 1 year	10,131			
More than 1 year but less than 5 years		10,131	34,738	63,285
Unlimited	80,084	66,650	77,940	55,505
Total	**90,215**	**76,781**	**112,678**	**118,790**

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.

Taxation on result

	2016	2015
Current tax	152,710	58,893
Deferred tax	41,905	59,405
Taxation on result	**194,615**	**118,298**

Notes to the Consolidated annual accounts
Continued

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

	2016	2015
Result before tax	1,238,855	1,259,079
Weighted average statutory tax rate	24.9%	25.0%
Weighted average statutory tax amount	**308,679**	**314,770**
Associates exemption	-105,375	-153,087
Other income not subject to tax	3,653	-24,422
Expenses not deductible for tax purposes	2,278	-78
Impact on deferred tax from change in tax rates		42
Deferred tax benefit from previously not recognised amounts		-15,800
Adjustments to prior periods	-14,619	-3,127
Effective tax amount	**194,616**	**118,298**
Effective tax rate	**15.7%**	**9.4%**

The weighted average statutory tax rate in 2016 was 25% (2015: 25%).

The effective tax rate in 2016 of 15.7% was lower than the weighted average statutory tax rate of 25.0% in 2016, due to tax exempt income, partly set off by prior year adjustments in 2016. The effective tax rate in 2016 was significantly higher than the effective tax rate in 2015 of 9.4%, mainly caused by significantly lower tax exempt income in 2016.

Taxation on components of other comprehensive income

	2016	2015
Unrealised revaluations Available-for-sale investment and other	-742,598	280,413
Realised gains/losses transferred to profit and loss account	64,504	77,292
Changes in cash flow hedge reserve	-151,227	145,968
Deferred interest credited to policyholders	234,208	-180,421
Income tax	**-595,113**	**323,252**

28 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 the underlying value of NN Leven.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	182,432	169,309	182,432	169,309
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	15,001,771	18,006,193	15,001,771	18,006,193
– non-trading derivatives	3,040,324	3,057,161	3,040,324	3,057,161
– designated as at fair value through profit or loss	234,142	137,147	234,142	137,147
Available-for-sale investments	51,935,476	48,068,892	51,935,476	48,068,892
Loans	21,015,684	20,631,259	19,450,535	18,819,967
Other assets[1]	2,347,485	1,448,164	2,347,485	1,448,164
Financial assets	**93,757,314**	**91,518,125**	**92,192,165**	**89,706,833**
Financial liabilities				
Subordinated debt	655,996	639,420	600,000	600,000
Other borrowed funds	1,965,184	2,034,339	1,978,068	2,053,759
Investment contracts for risk of company	723,651	755,652	678,245	713,879
Investment contracts for risk of policyholders	15,730	33,572	15,730	33,572
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	745,525	538,624	745,525	538,624
Other liabilities[2]	2,009,585	1,900,261	2,009,585	1,900,261
Financial liabilities	**6,115,671**	**5,901,868**	**6,027,153**	**5,840,095**

1 Other assets do not include (deferred) tax assets, net defined benefit assets and property obtained from foreclosures
2 Other liabilities do not include (deferred) tax liabilities, net defined benefit 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 recognised at their nominal value which approximates the fair value.

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.

Available-for-sale investments

Equity securities

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

Debt securities

The fair value for debt securities is based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, 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 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

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

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 (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	13,696,415	482,617	822,739	15,001,771
Non-trading derivatives	4,009	3,036,315		3,040,324
Financial assets designated as at fair value through profit or loss	144,179	89,963		234,142
Available-for-sale investments	40,990,280	9,794,747	1,150,449	51,935,476
Financial assets	**54,834,883**	**13,403,642**	**1,973,188**	**70,211,713**
Financial liabilities				
Investment contracts for risk of policyholders		15,730		15,730
Non-trading derivatives	16,719	728,806		745,525
Financial liabilities	**16,719**	**744,536**		**761,255**

Methods applied in determining the fair value of financial assets and liabilities (2015)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	14,868,136	2,325,021	813,036	18,006,193
Non-trading derivatives	4,555	3,052,606		3,057,161
Financial assets designated as at fair value through profit or loss	53,644	81,346	2,157	137,147
Available-for-sale investments	35,944,244	10,896,854	1,227,794	48,068,892
Financial assets	**50,870,579**	**16,355,827**	**2,042,987**	**69,269,393**
Financial liabilities				
Investment contracts for risk of policyholders		33,572		33,572
Non-trading derivatives	3,845	534,779		538,624
Financial liabilities	**3,845**	**568,351**		**572,196**

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), mortgage loans and consumer lending, private equity instruments and investments in real estate funds.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on NN 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.

Notes to the Consolidated annual accounts
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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.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

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

Changes in Level 3 Financial assets (2016)

	Investments for risk of policyholders	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Level 3 Financial assets - opening balance	813,036	2,157	1,227,794	2,042,987
Amounts recognised in the profit and loss account during the year	-1,428		-3,903	-5,331
Revaluation recognised in Other comprehensive income (equity) during the year			11,539	11,539
Purchase of assets	26,057		259,024	285,081
Sale of assets	-14,926	-2,157	-24	-17,107
Transfer from/to other assets/liabilities			-311,647	-311,647
Exchange rate differences			-32,334	-32,334
Level 3 Financial assets - closing balance	**822,739**		**1,150,449**	**1,973,188**

Changes in Level 3 Financial assets (2015)

	Investments for risk of policyholders	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Level 3 Financial assets - opening balance	614,129		1,377,711	1,991,840
Amounts recognised in the profit and loss account during the year	3,623		11,170	14,793
Revaluation recognised in Other comprehensive income (equity) during the year			63,402	63,402
Purchase of assets	45,513		214,649	260,162
Sale of assets	-7,202		-203,984	-211,186
Maturity/settlement			-27025	-27,025
Transfers into Level 3	156,973			156,973
Transfers out of Level 3			-176,507	-176,507
Changes in the composition of the group and other changes		2157	-39,045	-36,888
Exchange rate differences			7,423	7,423
Level 3 Financial assets - closing balance	**813,036**	**2,157**	**1,227,794**	**2,042,987**

Transfers into Level 3 (2015)
The transfers into Level 3 mainly reflect an improved fair value measurement of certain investments for risk of policyholders, resulting in classification as Level 3 instead of Level 2. The (changes in) fair value of these investments have no net impact on profit or loss or shareholder's equity as these are offset by (changes in) liabilities for insurance and investment contracts.

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Level 3 – Amounts recognised in the profit and loss account during the year (2016)

	Held at balance sheet date	Derecognised during the year	Total
Investments for risk of policyholders	-1,428		-1,428
Available-for-sale investments		-3,903	-3,903
Amounts recognised in the profit and loss account during the year	**-1,428**	**-3,903**	**-5,331**

Level 3 – Amounts recognised in the profit and loss account during the year (2015)

	Held at balance sheet date	Derecognised during the year	Total
Investments for risk of policyholders	3,623		3,623
Available-for-sale investments	-6,555	17,725	11,170
Amounts recognised in the profit and loss account during the year	**-2,932**	**17,725**	**14,793**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2016 of EUR 70,212 million (2015: EUR 69,269 million) include an amount of EUR 1,973 billion (2.8%) that is classified as Level 3 (2015: EUR 2,043 million (2.9%)). 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 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'
- 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.

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.

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 (2015: 2.6x to 10.1x) after Marketability/liquidity adjustment (net).

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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 (2015: +13% and -13%).

Investments for risk of policyholders
Of the EUR 1,973 million (2015: EUR 2,043 million), Level 3 investments EUR 823 million (2015: EUR 813 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 1,150 million (2015: EUR 1,228 million) 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 'Shareholder's equity' by EUR 115 million (2015: EUR 123 million), being approximately 0.7% (before tax) (2015: 0.8% (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 are disclosed) were determined as follows:

Methods applied in determining the fair value of financial assets and liabilities (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	182,432			182,432
Loans	311,976	4,326,547	16,377,161	21,015,684
Financial assets	**494,408**	**4,326,547**	**16,377,161**	**21,198,116**
Financial liabilities				
Subordinated debt		655,996		655,996
Other borrowed funds	1,771,347	189,671	4,166	1,965,184
Investment contracts for risk of company			723,651	723,651
Financial liabilities	**1,771,347**	**845,667**	**727,817**	**3,344,831**

Methods applied in determining the fair value of financial assets and liabilities (2015)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	169,309			169,309
Loans	40,274	3,780,651	16,810,334	20,631,259
Financial assets	**209,583**	**3,780,651**	**16,810,334**	**20,800,568**
Financial liabilities				
Subordinated debt		639,420		639,420
Other borrowed funds	1,782,609	251,730		2,034,339
Investment contracts for risk of company			755,652	755,652
Financial liabilities	**1,782,609**	**891,150**	**755,652**	**3,429,411**

29 Fair value of non-financial assets

The following table presents the estimated fair value of NN Leven's non-financial assets that are measured at fair value in the balance sheet. Reference is made to Note 1 'Accounting policies' in the sections 'Real estate investments' for the method and assumption used by NN Leven to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2016	2015	2016	2015
Real estate investments	2,029,542	1,569,114	2,029,542	1,569,114

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

Methods applied in determining the fair value of non-financial assets (2016)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,029,542	2,029,542

Methods applied in determining the fair value of non-financial assets (2015)

	Level 1	Level 2	Level 3	Total
Real estate investments			1,569,114	1,569,114

Level 3 Non-financial assets

	Real estate investments	
	2016	2015
Level 3 Non-financial assets - opening balance	1,569,114	1,154,893
Purchase of assets	399,939	389,180
Sale of assets	-11	-10
Amounts recognised in the profit and loss account during the year	58,521	22,333
Changes in the composition of the group and other changes	1,979	2,718
Level 3 Non-financial assets - closing balance	**2,029,542**	**1,569,114**

Level 3 – Amounts recognised in the profit and loss account during the year (2016)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	58,521		58,521

Level 3 – Amounts recognised in the profit and loss account during the year (2015)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	22,333		22,333

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.

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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 were in the following ranges:

	Fair value	Valuation technique	Current rent/m2	ERV/m2	Net initial yield %	Vacancy %	Average lease term in years
The Netherlands							
Office	76,600	Income Capitalisation	472	329	10.39		2.1
Industrial	46,450	DCF	48 - 49	46 - 48	5.7 - 6.4		6.9
Germany							
Industrial	205,900	Income Capitalisation	42 - 101	42 - 102	5.4 - 7.2	7	5.0
Retail	303,700	DCF	198 - 396	201 - 393	4.8 - 5.0	3	6.7
Office	61,700	Income Capitalisation	261	242	4.1		3.1
France							
Office	140,430	DCF	502 -649	487 - 619	4.4 - 5.7		4.1
Retail	93,500	Income Capitalisation	48 - 49	37 - 49	6.0 - 6.2	6	3.1
Industrial	124,720	DCF	42 - 78	42 - 77	3.5 - 7.3	2	5.0
Spain							
Retail	267,000	DCF	184 - 271	188 - 284	5.8 - 5.9	8	5.0
Industrial	114,084	Income Capitalisation	18 - 85	27 - 85	3.5 - 8.6	7	3.1
Italy							
Retail	155,700	DCF	526	493	6.6	3	2.7
Office	78,570	DCF	(21) - 209	230	(1.9) - 6.2	24	4.5
Belgium							
Industrial	21,540	DCF	55	52	9.1		1.3
Retail	126,890	DCF	103 - 297	117 - 289	4.9 - 7.6	4	1.9
Denmark							
Residential	87,956	DCF	252	252	4.7	2	4.0
Industrial	16,273	DCF	148	126	6.6		13.2
Poland							
Retail	93,100	DCF	151	156	6.5	7	3.6
Real estate under construction and other	15,429						
Total Real estate	**2,029,542**					**4.6**	**4.4**

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.

30 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Leven uses derivatives (mainly 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.

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.

In 2016 NN Leven started a spread lock programme. A spread lock is a generic term for a range of products that seek to 'lock' the portion of a bond's value that is driven by changes in credit spread only. The aim of the programme is to help stabilise (in an advantageous position) and improve own funds via hedging credit spread volatility in core government bonds. At the end of 2016 NN Leven entered into spread lock trades totalling a face value of EUR 800 million in core government bonds.

Cash flow hedge accounting

NN Leven's hedge accounting consists mainly of cash flow hedge accounting. NN Leven's cash flow hedges mainly 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 2016, NN Leven recognised EUR 466 million (2015: EUR -435 million) 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 2016 is EUR 5,896 million (2015: EUR 5,268 million) gross and EUR 4,422 million (2015: EUR 3,951 million after deferred tax). This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 41 years with the largest concentrations in the range of one year to eight years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 39 million income (2015: EUR 27 million expenses) which was recognised in the profit and loss account.

As at 31 December 2016, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 1,994 million (2015: EUR 2,590 million), presented in the balance sheet as EUR 2,364 million (2015: EUR 2,705 million) positive fair value under assets and EUR 370 million (2015: EUR 173 million) negative fair value under liabilities.

As at 31 December 2016 and 2015, 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 191 million (2015: EUR 235 million) and EUR 12 million (2015: EUR 22 million), respectively, relating to derivatives used in cash flow hedges.

Fair value hedge accounting

NN Leven's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2016, NN Leven recognised EUR 85.9 million of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR -85.6 million fair value changes recognised on hedged items. This resulted in EUR 0.3 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2016, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR 85.7 million, presented in the balance sheet as EUR 85.9 million positive fair value under assets and EUR 0.2 million negative fair value under liabilities.

31 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 (2016)

	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	163,706	18,726					182,432
Financial assets at fair value through profit or loss:							
– trading assets							
– investments for risk of policyholders[2]						15,001,771	15,001,771
– non-trading derivatives	6,150	22,672	127,061	186,461	2,697,980		3,040,324
– designated as at fair value through profit or loss			11,895	4,574		217,673	234,142
Available-for-sale investments	54,761	325,129	571,717	5,595,901	39,831,015	5,556,953	51,935,476
Loans	124,176	34,604	479,041	3,684,576	15,128,138		19,450,535
Reinsurance contracts	13,213	17,339	54,574	298,600	298,740	475,487	1,157,953
Intangible assets	252	504	2,268	6,054			9,078
Deferred acquisition costs	1,421	2,969	14,351	66,959	157,772	9	243,481
Other assets	857,826	214,829	1,144,911	25,183	111,351	426	2,354,526
Remaining assets (for which maturities are not applicable)[3]						4,706,118	4,706,118
Total assets	**1,221,505**	**636,772**	**2,405,818**	**9,868,308**	**58,224,996**	**25,958,437**	**98,315,836**

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 associates and joint ventures, real estate investments and equipment. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months

Assets by contractual maturity (2015)

	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	169,309						169,309
Financial assets at fair value through profit or loss:							0
– trading assets							0
– investments for risk of policyholders[2]						18,006,193	18,006,193
– non-trading derivatives	5171	6,659	14,006	150,644	2,880,681		3,057,161
– designated as at fair value through profit or loss		57	126	9,448	1381	126,135	137,147
Available-for-sale investments	272,939	243,867	573,111	4,181,867	37,217,178	5,579,930	48,068,892
Loans	260,431	160,596	632,306	3,465,947	14,300,687		18,819,967
Reinsurance contracts	12,967	21,048	63,098	322,176	314,895	458,400	1,192,584
Intangible assets	257	514	2,313	6,274			9,358
Deferred acquisition costs	1,623	3,329	16,421	70,430	172,774		264,577
Other assets	671,938	254,070	495,577	27,658	60,798	4,454	1,514,495
Remaining assets (for which maturities are not applicable)[3]						3,744,230	3,744,230
Total assets	**1,394,635**	**690,140**	**1,796,958**	**8,234,444**	**54,948,394**	**27,919,342**	**94,983,913**

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 associates and joint ventures, real estate investments and equipment. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months

32 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. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities, including insurance and investment contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 43 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2016)

	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	1,500,000		250,577	196,071	31,420			1,978,068
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	5,719	18,775	30,281	60,338	725,200	-1,353	-93,435	745,525
Financial liabilities	**1,505,719**	**18,775**	**280,858**	**256,409**	**1,356,620**	**-1,353**	**-93,435**	**3,323,593**
Insurance and investment contracts	289,712	659,562	2,214,488	11,739,079	43,126,979	15,424,015		73,453,835
Other liabilities	811,239	109,707	54,948	339,957	2,519,792	736,855		4,572,498
Non-financial liabilities	**1,100,951**	**769,269**	**2,269,436**	**12,079,036**	**45,646,771**	**16,160,870**		**78,026,333**
Total liabilities	**2,606,670**	**788,044**	**2,550,294**	**12,335,445**	**47,003,391**	**16,159,517**	**-93,435**	**81,349,926**
Coupon interest due on financial liabilities[3]	-937	33,514	-1,410	125,548	167,924			324,639

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 (2015)

	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	1,810,021		4,429	35,162	204,147			2,053,759
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	4,503	-14,240	-9,347	-173,963	-1,020,873		1,752,544	538,624
Financial liabilities	**1,814,524**	**-14,240**	**-4,918**	**-138,801**	**-216,726**		**1,752,544**	**3,192,383**
Insurance and investment contracts	231,533	431,739	2,262,737	11,242,079	40,530,013	18,440,383		73,138,484
Other liabilities	726,863	108,967	47,878	338,665	1,942,472	676,876		3,841,721
Non-financial liabilities	**958,396**	**540,706**	**2,310,615**	**11,580,744**	**42,472,485**	**19,117,259**		**76,980,205**
Total liabilities	2,772,920	526,466	2,305,697	11,441,943	42,255,759	19,117,259	1,752,544	80,172,588
Coupon interest due on financial liabilities[3]	-1,233	33,536	-1,175	126,110	166,708			323,956

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

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33 Assets not freely disposable

The assets not freely disposable relate primarily to investments of EUR 125 million (2015: EUR 192 million) provided as guarantees for certain contingent liabilities. This whole amount relate to the Parent company NN Leven. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 34 'Transferred, but not derecognised financial assets'.

34 Transferred, but not derecognised 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. NN Leven retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for other financial assets. These other financial assets are not recognised in the balance sheet.

Transfer of financial assets not qualifying for derecognition

	2016	2015
Transferred assets at carrying value		
Available-for-sale investments	5,572,634	2,242,017
Associated liabilities at carrying value		
Other borrowed funds	1,500,000	262,555

35 Offsetting of financial assets and liabilities

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

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**Gross financial assets**	**Gross financial liabilities offset in the balance sheet**	**Net financial assets in the balance sheet**	**Financial instru-ments**	**Cash and financial instruments collateral**	**Net amount**
Non-trading derivatives	Derivatives	3,030,669		3,030,669	-544,525		2,486,144
Financial assets at fair value through profit or loss		**3,030,669**		**3,030,669**	**-544,525**		**2,486,144**
Available-for-sale investments	Other	75,740		75,740	-16,912		58,828
Investments		**75,740**		**75,740**	**-16,912**		**58,828**
Total financial assets		**3,106,409**		**3,106,409**	**-561,437**		**2,544,972**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2015)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**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**
Non-trading derivatives	Derivatives	3,057,013		3,057,013	-417,832	-710	2,638,471
Financial assets at fair value through profit or loss		**3,057,013**		**3,057,013**	**-417,832**	**-710**	**2,638,471**
Available-for-sale investments	Other	130,025		130,025	-37,733		92,292
Investments		**130,025**		**130,025**	**-37,733**		**92,292**
Total financial assets		**3,187,038**		**3,187,038**	**-455,565**	**-710**	**2,730,763**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**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**
Non-trading derivatives	Derivatives	731,196		731,196	-544,525	-160,209	26,462
Financial liabilities at fair value through profit or loss		**731,196**		**731,196**	**-544,525**	**-160,209**	**26,462**
Other items where offsetting is applied in the balance sheet		16,912		16,912	-16,912		0
Total financial liabilities		**748,108**		**748,108**	**-561,437**	**-160,209**	**26,462**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2015)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**Gross financial assets**	**Gross financial liabilities offset in the balance sheet**	**Net financial assets in the balance sheet**	**Financial instru-ments**	**Cash and financial instru-ments collateral**	**Net amount**
Non-trading derivatives	Derivatives	417,832		417,832	-417,832		
Financial liabilities at fair value through profit or loss		**417,832**		**417,832**	**-417,832**		
Other items where offsetting is applied in the balance sheet		37,733		37,733	-37,733		
Total financial liabilities		**455,565**		**455,565**	**-455,565**		

36 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 (2016)

	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Maturity not applicable**	**Total**
Commitments	278,638	130,136	1,221,797	515,806	99,386	60,222	2,305,985
Contingent liabilities and commitments	**278,638**	**130,136**	**1,221,797**	**515,806**	**99,386**	**60,222**	**2,305,985**

Contingent liabilities and commitments (2015)

	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Maturity not applicable**	**Total**
Commitments	182,135	305,558	1,095,188	561,339	152,899		2,297,119
Contingent liabilities and commitments	**182,135**	**305,558**	**1,095,188**	**561,339**	**152,899**		**2,297,119**

The commitments mainly concern mortgage offers issued, investment-related liabilities (Private Equity Investments II B.V and REI Investment I B.V.) and future rental commitments. 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. An amount of these commitments EUR 625 million (mortgages and other) relates to the Parent company NN Leven.

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

	2016
2017	6,933
2018	5,101
2019	5,101
2020	5,101
2021	5,101
years after 2021	20,664

In addition to the items included 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, together with certain of its group companies, is a part of a fiscal unity for Dutch income tax purposes. The members of the fiscal unity are jointly and severally liable for any income taxes payable by the Dutch fiscal unity. The income tax receivable by NN Group at the end of 2016 amounts to EUR 17,789 (2015: EUR 20,624 receivable).

37 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 condition, 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 2016 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 NN defends itself in these proceedings. A(n) (interim) ruling from the District Court in Rotterdam is expected in the course of 2017.

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). On 29 March 2016 KiFiD issued its final ruling (in first instance) in line with its conclusions made in its interim ruling of 13 May 2013. NN Leven believes that both the interim ruling and final ruling are incorrect on several legal grounds and is appealing the KiFiD ruling with the Appeals Committee of the KiFiD. The ruling from the Appeals Committee of the KiFiD is expected in the first half of 2017.

In proceedings that were pending before the District Court in Rotterdam, the Court 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 was 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.

Customers of NN's Dutch insurance subsidiaries, among which NN Leven, have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) NN owed the customer a duty of care which NN has breached, or (e) the insurer failed to warn of the risk of not realising the projected policy values. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. There is no assurance that further proceedings for damages based on aforementioned legal grounds or other grounds will not be brought. Save for the ruling from the Appeals Committee of the KiFiD in an individual case, which is expected in the first half of 2017, the timing of reaching any finality on these legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

Rulings or announcements made by courts, including the European Court of Justice and advisory opinions issued by the Attorney General to such Court on questions being considered by such Court, or decision-making bodies or actions taken by regulators or governmental authorities against NN Leven or other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs) by other Dutch insurance companies towards consumers, consumer protection organisations, regulatory or governmental authorities or other decision making bodies in respect of the unit-linked products, may affect the (legal) position of NN Leven and may force NN Leven to take (financial) measures that could have a substantial impact on the financial condition, results of operations, solvency or reputation of NN Leven. As a result of the public and political attention the unit-linked issue has received, it is also possible that sector-wide measures may be imposed by governmental authorities or regulators in relation to unit-linked products in the Netherlands. The impact on NN Leven of rulings made by courts or decision-making bodies, actions taken by regulators or governmental bodies against other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs), may be determined not only by market share but also by product features, portfolio composition and other factors. Adverse decisions or the occurrence of any of the developments as described above could result in outcomes materially different than if NN Leven or its products had been judged or negotiated solely on their own merits.

NN Leven's book of policies dates back many years, and in some cases several decades. Over time, the regulatory requirements and expectations of various stakeholders, including customers, regulators and the public at large, as well as standards and market practice, have developed and changed, increasing customer protection. As a result, policyholders and consumer protection organisations have initiated and may in the future initiate proceedings against NN Leven alleging that products sold in the past fail to meet current requirements and expectations. In any such proceedings, it cannot be excluded that the relevant court, regulator, governmental authority or other decision-making body will apply current norms, requirements, expectations, standards and market practices on laws and regulations to products sold, issued or advised on by NN Leven.

Although the financial consequences of any of these factors or a combination thereof could be substantial for the Dutch insurance business of NN Leven and, as a result, may have a material adverse effect on NN Leven's business, reputation, revenues, results of operations, solvency, financial condition and prospects, it is not possible to reliably estimate or quantify NN Leven's exposures at this time.

38 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**	**2016**	**2015**
REI Investment I B.V.	The Hague, the Netherlands	88.9%	88.4%
Private Equity Investments II B.V.	The Hague, the Netherlands	86.3%	86.3%
Private Equity Investments B.V.	The Hague, the Netherlands	96.6%	100%
Infrastructure Debt Investments B.V.	The Hague, the Netherlands	100%	100%
Korea Investment Fund B.V.	The Hague, the Netherlands	100%	100%
FI Pensions PNNLA B.V.	The Hague, the Netherlands	100%	100%
Mittelstand Senior Debt Investment B.V.	The Hague, the Netherlands	100%	100%

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Principal subsidiaries of REI Investment I B.V.

Subsidiary	Statutory place	Proportion of ownership interest held by REI Investment I B.V. 2016	2015
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%	100%
REI Belgium Evere	Brussels, Belgium	100%	100%
REI Belgium Gent	Brussels, Belgium	100%	100%
REI Belgium Mechelen	Brussels, Belgium	100%	100%
Grupo Berkley Tres S.L.	Madrid, Spain	100%	100%
REI Spain Vitoria S.L.	Vitoria-Gasteiz, Spain	100%	100%
RPFI Vitoria S.L.	Vitoria-Gasteiz, Spain	100%	100%
REI Spain Logistics S.L.U.	Madrid, Spain	100%	
REI Henares Logistics S.L.	Madrid, Spain	100%	
REI Madrid Logistics S.L.U.	Madrid, Spain	100%	
REI Denmark Copenhagen ApS	Copenhagen, Denmark	100%	100%
REI Denmark Solvgade Holding A/S	Copenhagen, Denmark	100%	
REI Denmark Solvgade A/S	Copenhagen, Denmark	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	100%	100%
LZA III Altenwerder Grundstückverwaltung GmbH	Frankfurt, Germany	100%	100%
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%
REI Germany Lurup Center B.V.	The Hague, the Netherlands	100%	100%
REI Germany Logistics B.V.	The Hague, the Netherlands	100%	100%
REI Germany Neu Ulm B.V.	The Hague, the Netherlands	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 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%	100%
INS Saint Priest	Paris, France	100%	100%
INS Saint-Vulbas S.C.I.	Paris, France	100%	100%
INS Statolas	Paris, France	100%	100%
REI France Logistics S.A.S	Paris, France	100%	
Brie Logistique S.A.S	Paris, France	100%	
Chelles S.A.S	Paris, France	100%	
Les Arpajons S.A.S	Paris, France	100%	
Logistique Portefeuille S.A.S	Paris, France	100%	
Marolles 91 S.A.S	Paris, France	100%	
REI Poland Jantar sp. z o.o.	Warsaw, Poland	100%	
REI Netherlands B.V.	The Hague, the Netherlands	100%	100%
REI Netherlands Venlo Zonneveld B.V.	The Hague, the Netherlands	100%	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%

For each of the subsidiaries listed above, the voting rights held equal the proportion of ownership interest.

39 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', 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 Consolidated annual accounts of NN Leven as all assets and liabilities of these entities are included in the consolidated balance sheet 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 investments in debt instruments of structured entities relates to asset-backed securities ('ABS') classified as loans. Reference is made to Note 5 'Loans' where the ABS portfolio is disclosed.

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

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

40 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 NN Group. The following categories of transactions are conducted under market-compliant conditions with related parties belonging to NN Group:

- Reinsurance activities through NN Re (Netherlands) N.V. ('NN Re')
- NN Personeel reference is made to Note 23 'Staff expenses'
- Transactions with NN Group concerning the payment of taxes as NN Group heads the fiscal unity. Reference is made to Note 36 'Contingent liabilities and commitments'
- Transactions relating to the remuneration of board members. Reference is made to Note 41 'Key management personnel compensation'
- The management of financial instruments takes place via a management agreement with NN Investment Partners Holding N.V.
- Facility services carried out by group companies
- The derivatives transactions are conducted mainly via NN Interfinance. The unrealised revaluations of derivatives recognised in the result of NN Leven for the 2016 financial year amount to EUR 212 million (2015: EUR -303 million).

Main transactions in 2016:

In October and November two loan agreements were signed with NN Interfinance. One facility with due date on 31 January 2017 for a notional amount of EUR 1,500 million, the second with a notional amount of EUR 250 million, and a one year tenor that is renewable. The loans are subject to certain conditions on the availability of funds at NN Interfinance.

Transactions with consolidated entities

Entities in over which NN Leven can exercise control are considered to be related parties of NN Leven. These entities are consolidated by NN Leven. Transactions with or between entities controlled by NN Leven are eliminated in the Consolidated annual accounts."

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.

Given that the Czech branch reported a positive result of EUR 13 million (2015: EUR 16 million), an expense of EUR 13 million (2015: EUR 15 million) under the reinsurance contract is recognised in the result of NN Leven. The difference of EUR 0.1 million (2015: EUR 0.8 million) 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 amounts to EUR 1,080 million (2015: EUR 1,115 million).

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Income and expenses from NN Leven recharged to NN Group companies

	Parent company		Other group companies		Total	
	2016	2015	2016	2015	2016	2015
Expenses	4	1,631	15,803	10,432	15,807	12,063
Investment income	106			353,476	106	353,476
Income and expenses from NN Leven recharged to NN Group companies	**110**	**1,631**	**15,803**	**363,908**	**15,913**	**365,539**

Income and expenses from NN Group companies recharged to NN Leven

	Parent company		Other group companies		Total	
	2016	2015	2016	2015	2016	2015
Expenses	35,633	175,791	304,976	227,724	340,609	403,515
Investment income		6	1,400,641	651,671	1,400,641	651,677
Income and expenses from NN Group companies recharged to NN Leven	**35,633**	**175,797**	**1,705,617**	**879,395**	**1,741,250**	**1,055,192**

Financial assets and liabilities with related parties

	Parent company		Other group companies		Total	
	2016	2015	2016	2015	2016	2015
Financial assets						
Cash and cash equivalents				47,226		47,226
Financial assets at fair value through profit or loss:						
– non-trading derivatives			2,922,747	3,055,945	2,922,747	3,055,945
Loans				205,129		205,129
Other assets	860,265	230,294	191	6,043	860,456	236,337
Financial assets	**860,265**	**230,294**	**2,922,938**	**3,314,343**	**3,783,203**	**3,544,637**
Financial liabilities						
Subordinated loan	600,000	600,000			600,000	600,000
Other borrowed funds			271,346	1,536,184	271,346	1,536,184
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives			426,966	581,186	426,966	581,186
Other liabilities	112		1,092,646	1,126,412	1,092,758	1,126,412
Financial liabilities	**600,112**	**600,000**	**1,790,958**	**3,243,782**	**2,391,070**	**3,843,782**

The receivables from related parties amounts to EUR 2,820 million as at 31 December 2016 (2015: EUR 3,342 million) which is not due in one year. These amounts relate to participating interests over which significant influence can be exercised by NN Leven.

41 Key management personnel compensation

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

Management Board

	2016	2015
Fixed compensation:		
– base salary	1,673	1,595
– pension costs[1]	128	115
– individual saving allowance[1]	325	286
Variable compensation:		
– upfront cash	190	198
– upfront shares	190	198
– deferred cash	175	185
– deferred shares	175	185
Other benefits	207	141
Fixed and variable compensation	**3,063**	**2,903**

1 The pension costs consist of an amount of employer contribution (EUR 128 thousand) and an individual savings allowance (EUR 325 thousand, which is 27.7% of the amount of base salary above EUR 101,519)

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Leven Supervisory Board members do not receive compensation for their activities. The Supervisory Board members hold remunerated (board) positions within NN Group but not within NN Leven. Their remuneration is part of the allocation of head quarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members.

The total remuneration as disclosed in the table above (for 2016: EUR 3,063 thousand) includes all variable remuneration related to the performance year 2016. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in 'Staff expenses' in 2016 and therefore included in 'Total expenses' in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of earlier performance years, is EUR 2,746 thousand (2015: EUR 2,610 thousand).

Remuneration policy

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

The general principles underpinning the NN Group Remuneration Framework are (amongst others) 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
- Comply with and support the spirit of the (inter)national regulations on remuneration policies
- Aim to avoid improper treatment of customers and employees
- 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.

Loans and advances to key management personnel

	Amounts outstanding 31 December		Average interest rate		Repayments	
	2016	2015	2016	2015	2016	2015
Management Board members	618	663	4.9%	4.1%	46	179
Supervisory Board members	660	743	5.2%	4.7%	83	83
Loans and advances to key management personnel	**1,278**	**1,406**			**129**	**262**

The loans and advances provided to members of the Management and Supervisory Board consist of mortgage loans. The total amount of redemptions of these mortgage loans during 2016 was EUR 129 thousand (2015: EUR 262 thousand).

42 Other events

Offer Delta Lloyd
On 2 February 2017, NN Group announced a recommended public cash offer to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd (the 'Shares') to acquire their shares at a price of EUR 5.40 (cum dividend) in cash for each share, representing a total consideration of EUR 2.5 billion.

The offer is supported and recommended by the Delta Lloyd Executive Board and the Delta Lloyd Supervisory Board. The offer period during which Shares may be tendered commenced at 09:00 hours CET on 3 February and will expire at 17:40 hours CET on 7 April 2017, unless extended. The offer is subject to the satisfaction or waiver of the offer conditions as set out in the offer memorandum and is subject to a minimum acceptance level.

The offer values 100% of the Shares at EUR 2.5 billion. NN Group intends to pay the offer consideration through a combination of available cash resources and external debt.

Dividend distribution
In March 2017, NN Leven made a dividend distribution of EUR 150 million from the 'Other reserves' to its shareholder NN Nederland.

43 Risk management

Introduction

Risk taking is integral to the business model for an insurance organisation such as NN Leven. 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. By working within this structure, NN Leven aims to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

NN Leven, through a domestic branch, offers insurance products in the Czech Republic. These activities and the related financial risks of these activities are reinsured with 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 paragraph. For the deposits from reinsurers reference is made to Note 16 'Other liabilities'.

NN Leven's 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 NN Leven's risk management. This structure and governance systems is embedded throughout the organisation,

- Risk management system: NN Leven's risk management system takes into account the relevant elements of risk management, including its integration into NN Leven's strategic planning cycle, the management information generated and a granular risk assessment. This includes a comprehensive set of risk management policies, standards and processes. These 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 NN Leven and are used by NN Leven to establish, define and evaluate NN Leven's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

Risk management structure and governance system

Management Board of NN Leven and its (sub) committees

The Management Board of NN Leven, is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective.

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

While the Management 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(s), the Product Risk Committee, the Model Committee and the Crisis Committee. Representation in the various committees is provided from the relevant risk departments.

Chief Executive Officer and Chief Risk Officer

The Chief Executive Officer ('CEO'), the chairman of the Management Board, bears overall responsibility and the Chief Risk Officer ('CRO') is responsible for risk management and entrusted with the day-to-day execution of the following tasks:

- Setting risk policies
- Formulating NN Leven's risk management strategy and ensuring that it is implemented throughout NN Leven
- Monitoring compliance with NN Leven's overall risk policies
- Supervising the operation of NN Leven's risk management and business control systems
- Reporting of NN Leven's risks and the processes and internal business controls
- 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 member of the Management Board 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 NN Leven's Supervisory Board.

The Supervisory Board is responsible for supervising the Management Board and the general affairs of the company and its business and providing advice to the Management Board.

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Three lines of defence model
The three lines of defence 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 Management Board, ratified by the Supervisory Board, and cascaded throughout NN Leven.

- First line of defence: the CEO of NN Leven and the other Management Board members have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their business. They underwrite the insurance products that reflect customer needs and are well-positioned to act in both the customers' and NN Leven's best interests,

- Second line of defence: oversight functions with a major role for the risk management organisation, legal and the compliance function. 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 their specific risk and control area

  - Encouraging and objectively challenging/monitoring 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 power in relation to business activities that are judged to present unacceptable risks to NN Leven,

- Third line of defence: 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.

Operating Model
NN Leven is a business unit of NN Group. NN Leven may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) business plan as long as they are consistent with the frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite and NN Group Values.

NN Leven is expected to operate transparently and must provide information to the relevant Management Board members and Support Function Head(s) at Head Office. Particularly when NN Leven wishes to deviate from a specific framework, the business plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

The CEO of NN Leven is responsible for:
- The profitability, as well as the business and operational activities, and as such the risk and control

- The execution of the strategy that conforms to the strategic framework of NN Group

- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls

- Fulfilling their statutory responsibilities

- Implementing a sound control framework and operating in accordance with NN values

- Sustainability of NN Leven in the long term

- Sharing best practices across NN Group

Other Key Functions in risk management structure

The Actuarial Function

The mission of the Actuarial Function Holder is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This will contribute to an enhanced perception of clients, regulators and investors alike of the financial solidity of NN Leven.

The Actuarial Function Holder will be involved in daily actuarial and risk management operations. He will supply his expertise pro-actively where and when deemed relevant, and when asked for. Particularly the Actuarial Function Holder will provide an objective challenge in the review of the technical provisions as well as quality assurance on the underwriting policy and reinsurance arrangements.

The Actuarial Function Holder operates within the context of NN Group's broader risk management framework. Within this framework, the role of the Actuarial Function Holder is to:

- Understand and advocate the rules, regulations and laws for effective management of the calculation process of Solvency II technical provisions, underwriting and reinsurance arrangements
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on risks related to unreliable or inadequate Solvency II technical provisions
- Support NN Leven strategy by establishing clear roles and responsibilities to help embed good (actuarial) practices throughout the organisation by using a risk-based approach to align insights with NN Leven's risk appetite
- Strengthen the culture of professional risk management by challenging management and experts to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and reporting on risks to unreliable or inadequate technical provisions

The Compliance Function

Role

Management is the owner of Compliance Risks and is ultimately responsible for any business, or strategic activities and decisions that entail such risks. At all levels, Management must create an environment of awareness and accountability in which the importance of meeting compliance obligations, including the NN Values, is well understood. Management must identify and communicate minimum compliance requirements that each employee must fulfil in day-to-day business activities. The Compliance function is instrumental in supporting management with these objectives.

The Compliance function focuses on:

- Risk underwriting: dissemination of laws and regulations, providing understanding of those and proactively supporting and advising the business on managing the compliance risks
- Risk disclosure: encouraging a culture of trust, transparency and integrity
- Risk reporting and risk management: providing insightful risk reports for the business allowing for balanced decision-making on compliance risks

Compliance Mission

The Compliance function ensures fair and transparent financial services. Compliance is the independent regulator and sees itself as the 'conscience' of NN Leven. Aim is to strengthen the confidence of consumers and businesses in the financial markets to contribute to the reputation of NN Leven.

Reporting

The Head of Compliance reports to the General Counsel and functionally to the Chief Compliance Officer of NN Group. The Compliance function reports quarterly to management, by way of a formal non-financial risk dashboard, and on a frequent basis in committees, meetings and one on ones.

A lot of importance is given to the independent role and position of the Compliance function. In addition there is also the so-called 'escalation model'. If the Compliance function and the business have a lasting difference of opinion on an issue, the Head of Compliance can always escalate to the Chief Compliance Officer.

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The Internal Audit Function

The Dutch Financial Supervision Act ("Wet op het financieel toezicht"), Dutch Corporate Governance Code and Solvency II require NN Leven to have an internal audit department which independently assesses the effectiveness of the design of the organization and the quality of procedures and control measures. NN Leven has outsourced internal audit to Corporate Audit Services NN Group (CAS), the internal audit department within NN Group. CAS is an independent assurance function and its responsibilities are established by the Executive Board of NN Group and approved by the Audit Committee of the Supervisory Board, under the ultimate responsibility of the Supervisory Board. CAS is an essential part of the corporate governance structure of NN Group.

CAS provides an independent assessment of the standard of internal control with respect to NN Leven business and support processes, including governance, risk management and internal controls. The scope of CAS is defined as every activity, departments and offices of NN Leven, including branches, subsidiaries as well as outsourced activities (with a "right-to-audit" clause). CAS is maintaining its objectivity by not participating in any activity or relationship that may impair or be presumed to impair its unbiased assessment. CAS provides adequate and proficient staff for realisation of the assurance activities; dedicated audit staff to ensure appropriate know how of NN Leven and shared specialist expertise.

The Internal Audit Head responsible for NN Leven is accountable to the General Manager of CAS NN Group. The Internal Audit Head has regular meetings with the CEO and other MB members as well as the chair of the Supervisory Board. The hiring, firing and appraisal of the Internal Audit Head responsible for servicing the Internal Audit Services to NN Leven is performed in consultation with the CEO of NN Leven and in case of hiring or firing the Chair of the Supervisory Board of NN Leven is consulted.

CAS performs its work in accordance with the International Standards for the Professional Practice of Internal Auditing Standards and Code of Ethics set by the Institute of Internal Auditors (IIA), and with other relevant authorities or professional associations (e.g. NBA, NOREA). These professional standards are incorporated in the CAS Audit Manual. Compliance to the audit manual is embedded at various levels in the audit process and includes review by the independent positioned Professional Practices Management team within NN Group CAS. On a periodic basis CAS globally is subject to an independent external assessment.

Risk Management System

The risk management system is not a serial process, but a dynamic and integrated system. The system is structured around three elements: a risk control cycle, embedded in an appropriate organisation, following the business strategy and (risk) objectives, set in alignment with the environment. NN Leven's business environment exposes NN Leven to inherent risks and obligations. As such, the environment determines the playing field and rules on which to calibrate risk management activities.
These activities are carried out within an internal environment reflected by NN Leven's risk philosophy (or: risk culture), called Active Risk Management. We assess the effectiveness of this philosophy twice yearly through risk culture dashboards.

In this philosophy, every employee has a role in identifying risk in their domain and the role of management is to decide how to manage them. It is paramount to know which risks we take and why, have our eyes wide open for both the biggest risks and everyday risks, and ensure an adequate return for risk.

With risk management, we do not try to predict the future but manage possibilities. It encompasses all our risks to all key business objectives.

When assessing and managing risks, we work systematically, by aim for completeness and document what we do. Each risk analysis performed shall be focused and relevant. It thus becomes clear and transparent throughout the organisation for the benefit of management and stakeholders alike.

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Risk control cycle
NN Group's risk control cycle consists of four steps executed in a sound risk culture. The risk control cycle starts with business processes that support business and risk objectives setting (the latter resulting in a risk strategy: risk appetite, policies and standards), followed by business processes aimed at realisation of those objectives, leading to risks which need to be managed by identifying/assessing them, effective mitigation through controls and continuous monitoring effectiveness of controls, including reporting of risk levels.

The risk control cycle, combined with the business plan / financial control cycle and performance management / HR performance and evaluation cycle, enables realisation of business objectives through ensuring NN Leven operates within the risk appetite.

Risk Strategy
Risk Taxonomy
From the environment come inherent risks. NN Leven has defined and categorized its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy as outlined below. The risk taxonomy is clustered in six risk classes. For the use of day-to-day risk management, our main risk types are further split in sub risk types.

Risk Class	Description	Main mitigation technique
Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Leven	Scenario analyses and contingency planning
Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision making	Scenario analyses and business planning
Market Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk	New Investment Class Approval and Review Process, Asset Liability Management studies, Strategic Asset Allocations, Limit structure, Derivatives
Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations	Limit structure
Non-Market Risk	Risks related to the products NN Leven markets	Product Approval & Review Process, Reinsurance, Derivatives
Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems, and/or external events.	Business and Key Controls, Control Testing, Incident management

Risk appetite framework

NN Leven's risk appetite framework determines which risks NN Leven takes, avoids, retains and/or removes. The risk limits are derived from the NN Group risk appetite. The risk appetite framework consists of qualitative and quantitative statements pertaining to risk preferences, risk tolerances, risk limits and risk controls. The NN Group risk appetite framework is cascaded down to NN Leven and is based on quantitative measures that:

- Ensure that NN Group can meet its annual overhead expenses and obligations to its policyholders and keep its business adequately capitalised even after a 1-in-20 annual risk sensitivity; NN Group quantifies the cash requirement to do so using capital sensitivities to Solvency II Basic Own Funds across its business. The capital impact in a 1-in-20 year event is measured by the Own Funds at Risk, or OFaR metric which is described in more detail later in this section and is used to present the risk profile of NN Leven. OFaR is a key input into determining the capital NN Leven should have available to capitalise its business to adequate solvency levels.
- Monitor the impact of a 1-in-20 annual risk sensitivity on the IFRS net result; NN Leven quantifies this risk using sensitivities on the IFRS results after tax.

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

- Managing underwriting. Underwriting and product development are essential to the insurance business. NN Leven offers a comprehensive range of easy to understand and transparent value-for-money products that can be effectively risk managed over the expected life of the contract

- Asset and Liability Management. NN Leven matches 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's appetite for investments provides an appropriate risk and return for NN's policyholders and shareholder

- Managing operations. Under this category, NN Leven specifies requirements for managing reputation, business continuity, processes and controls, as well as for providing a safe and engaging work environment that supports qualified and motivated colleagues

Risk limits

The quantitative risk appetite statements are translated into quantitative risk limits which pertained to Basic Own Funds (Solvency II capital), and additional interest rate risk limits. NN Leven reports regularly on their risk profile compared to applicable risk appetite and risk limits.

Risk policy framework

NN Leven's 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.

Risk Assessment & Control

Risk assessments are regularly performed throughout NN Leven. For market, counterparty default and underwriting risk, our internal model is leading in risk assessments and measurement. Risks that do not directly impact the balance sheet generally require more professional judgment in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks. As part of Own Risk and Solvency Assessment ('ORSA'), a bottom-up full scope risk assessment is performed at least annually. Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is management's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment

NN Leven prepares an ORSA at least once a year. 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 evaluates 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'). The ORSA includes a forward looking overall assessment of NN Leven's solvency position in light of the risks it holds.

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Product approval and review process
The product approval and review process ('PARP') has been 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's 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 also maintains a local asset list that is a subset of the global asset list. The local asset list 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.

Risk Monitoring
The risk profile is monitored against the risk appetite, risk assessments and the risk limits derived from the risk appetite. Results, including deficiencies, conclusions and advices, are to be reported regularly to risk committees and management boards. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

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, 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
As described under the Risk Appetite section, NN Leven manages the level of risk exposures by measuring and limiting the impact of a 1-in-20 year adverse scenario on the Solvency II Basic Own Funds or regulatory Capital. The loss of Own Funds in a 1-in-20 year scenario is referred to as Own Funds at Risk ('OFaR'), the metric used to describe the risk profile throughout the remaining section.

NN Leven uses an internal model to measure OFaR. The underlying model used to calculate OFaR is based on the (Partial) internal model ('PIM') approved by the DNB, but with several key differences:

- OFaR measures losses in a 1-in-20 year event (or 95% level of confidence), whereas the PIM measures losses in a 1-in-200 year event, (or 99.5% level of confidence)
- The credit spread model used for OFaR shocks the Volatility Adjustment applied to the liabilities to measure the specific spread risk related to Own Funds, whereas the PIM assumes no change in the Volatility Adjustment in a shocked-event but factors the illiquidity of liabilities into the asset shocks in order to ensure appropriate risk capital relative to the riskiness of the underlying assets.

OFaR sensitivities provide management with information as to how Own Funds could be impacted under less severe shocks than the 1-in-200 shocks required for Solvency Capital Requirement purposes, but under more likely stress scenarios for which management is more likely to need to respond. Where necessary, such as interest rate risk or hedging of separate account guarantees, additional limits are applied to align with the goal of hedging on a more granular economic basis. Within this section, OFaR is used to elaborate on the risk profile of NN Leven. The table below provides an overview of OFaR per major risk category.

OFaR overview (EUR, millions)[1]

	2016	2015
Insurance Risk	1,625	1,435
Business Risk	758	701
Market and credit Risk		
– own account	1,553	1,090
– separate account	266	228
– diversification between own account and separate account	-283	-185
Diversification between modelled risks	-1,344	-1,097
Modelled OFaR	2,575	2,173
Operational Risk	129	121
Loss-absorbing capacity of Deferred Taxes	-624	-544
Total	**2,080**	**1,750**

1 In the OFaR amount for market and credit risk diversification between own account and separate account is included

The increase in Market and credit risk is mainly attributed to higher Credit Spread and Real Estate risks.

OFaR for operational risk is based on the Solvency II standard formula calculation. To be relevant, however, for a 1-in-20 year event (or 95% level of confidence), the 95% figure is derived from the 99.5% SCR using an assumed underlying distribution.

In line with Solvency II, a loss-absorbing capacity of deferred taxes (or LACDT) is recognised. NN Leven's total loss in a 1-in-20 adverse event would be partially offset by tax recoveries and these are recognized to the extent they are expected to be recoverable. The determination of LACDT is significantly dependent on various assumptions, such as capitalisation assumptions, the assumed investment returns and the projection period.

Main types of risks

As outlined above, the following principal types of risk are associated with NN Leven's business which are further discussed below:

Non-Market risk

- 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 occur because of internal, industry, regulatory/political, or wider market factors

Market and Credit Risk

- Market and credit risk. Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk (credit risk) is the risk of potential losses due to default by counterparties. Market and credit risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk; (v) counterparty default risk and (vi) foreign exchange risk. In relation to market and credit risk, NN Leven distinguishes between own account business and separate account business.

  - Own account business: In the case of own account business, NN Leven directly bears the market and credit risk of its invested assets and liabilities
  - Separate account business: In the case of separate account business, the policyholder bears the market and credit risk. NN Leven's earnings from the separate account businesses are primarily driven by fee income. 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,
- Liquidity risk. Liquidity risk is the risk that NN Leven does not have sufficient liquid assets to meet its financial obligations when they bcome due and payable, at reasonable cost and in a timely manner.

Non-Financial Risk

- 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 NN Leven's integrity. It is a failure (or perceived failure) to comply with NN Leven Statement of Living 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 NN Leven's reputation and lead to legal or regulatory sanctions and financial loss.

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.

Risk profile

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements. While NN Leven is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business is significantly larger than the mortality risk in the other business, 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. 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 amounts 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, claims management, and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple product benefits and contract lengths, NN Leven reduces the likelihood that a single risk event will have a material impact on NN Leven's financial condition.

Management of the insurance risks is done 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 NN Leven's underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes.

Insurance risks are diversified 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
- NN Leven participates in the 'Nederlandse Herverzekeringsmaatschappij voor Terrorismeschade' to mitigate the risk from terrorism

NN Leven investigates the option to mitigate longevity risk by a derivative or a reinsurance transaction.

Risk measurement

The table below sets out NN Leven's OFaR for business risk as at 31 December 2016 and 2015, respectively.

OFaR for insurance risk (EUR, millions)[1]

	2016	2015
Mortality (including longevity)	1,625	1,435
Morbidity	12	14
Diversification Insurance Risk	-12	-14
Total	**1,625**	**1,435**

1 Note that NN Leven's businesses calculate business risk locally at 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using scaling with an assumed underlying distribution

The OFaR for insurance risks is mostly mortality risk, in particular longevity risk in the pension business. Given the long-term nature of the longevity portfolio, the underlying risks – specifically trend uncertainty – are sensitive to interest rates (due to the discounting impact). During the first three quarters of 2016 interest rates decreased, followed by a partly offsetting increase in the last quarter, overall resulting in an increased insurance risk.

The OFaR amount for morbidity did not change significantly.

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.

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 that 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, and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. The risk that policyholders maintain their contracts longer than NN Leven has assumed is specific for both the own and separate account business when guarantees are higher than the value of the underlying policyholder funds.

Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers. 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 OFaR calculations for policyholder behaviour risk take into account the present value impact of changes in policyholder behaviour assumptions.

Expense risk

Total administrative expenses for NN Leven in 2016 amounted to EUR 387 million. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates to the risk that the actual expenses in the future exceed the expected expenses and consists of starting level risk and expense inflation risk. Expense risk consists of starting level risk and expense inflation risk. The risk related to the starting level aggregates three risks: the risk that the level of the actual expenses turns out to be different from the level of the best estimate expenses, the risk of not being able to make all expenses variable in strategic closed-book situations; and the risk of insufficient coverage of acquisition expenses if the sales volume in the following 12 months is below the assumptions. The risk regarding the expense inflation relates to the actual expense development over time not being aligned with the best estimate inflation assumed. A part of the fixed expenses is still incurred in the closed block operations. Furthermore, the valuation of the group pension business includes long-term best estimate expense assumptions, discounted over a long period of time. Changes in these assumptions will affect NN Leven's expense risk.

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 programs in place to own and improve the customer experience. These programs improve the match between customer needs and the benefits and options provided by NN Leven's products. Over time, NN Leven's understanding and anticipation of the choices policyholders are likely to make, will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Expense risk

Ongoing initiatives are in place to manage expense risk as can be seen in many parts of the business where targets are in place to reduce expenses, thus, lowering expense risk going forward. These initiatives seek to variabilise expenses to the underlying contracts in place. This is particularly relevant for the individual life closed-block business that can only reduce in number of contracts.

Risk measurement

The table below sets out NN Leven's OFaR for business risk as at 31 December 2016 and 2015, respectively.

OFaR for business risk (EUR, millions)[1]

	2016	2015
Persistency and calamity	135	187
Expense	734	664
Diversification Business Risk	-111	-150
Total	**758**	**701**

1 Note that NN Leven's businesses calculate business risk locally at 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using scaling with an assumed underlying distribution

The OFaR amount for persistency risk decreased in 2016 mainly due to the model update of removing the prepayment shock on the mortgages portfolio. Further decrease is caused by the transfer of the separate account portfolio to own account portfolio, as cost per policy for separate account is higher than for general account. The increase of these changes is partly offset by lower interest rates in 2016.

Market and credit risk: Own account

Market and credit risks are the risks related to the impact of financial markets on NN Leven's balance sheet. NN Leven distinguishes between market and credit risks on NN Leven's own investment asset portfolio (own account) and portfolios or businesses where the majority of such risks are primarily borne by policyholders (separate account).

This section refers to the market and credit risks of the own account in which NN Leven takes on market and credit risks in pursuit of returns. These returns are used to fulfil policyholder obligations with any surplus return benefitting the group. Accordingly, optimisation within the risk appetite is paramount to generating returns for both policyholder and shareholder.

The table below sets out NN Leven's OFaR for the own account assets and liabilities as at 2016 and 2015, respectively.

OFaR – Market and credit risk: Own Account (EUR, millions)

	2016	2015
Equity risk	994	1,011
Real estate risk	399	266
Interest rate risk	775	818
Credit spread risk	1,418	1,339
Foreign exchange risk	86	73
Inflation risk	36	33
Counterparty default risk	39	83
Diversification benefit	-2,194	-2,533
Total Market and credit risk	**1,553**	**1,090**

Within NN Leven's own account, market risks are largely driven by the fixed income portfolio that generates spread risk and interest rate risk for duration mismatches. While it constitutes a smaller asset allocation, equity and real estate investments also generate risks, which cannot be directly offset by the liabilities. In 2016, the total market and credit risk had increased along with the increases in spread and real estate risk and decreases in interest rates and spreads.

The OFaR for the fixed income bonds and mortgage loans is calculated within spread risk and the OFaR for the remaining fixed income loans is calculated within counterparty default risk. The increase in spread risk is driven by the inclusion of mortgages under spread risk instead of counterparty default risk. The inclusion of mortgages in credit spread risk lowers the counterparty default risk. The increase in market value of the fixed income portfolio, due to lower interest rates and spreads, and transfers from the separate account business to the own account business, also cause credit spread risk to increase. Due to a closer resemblance of the NN asset positions to the VOLA reference portfolio the higher credit spread risk is dampened. The increase in real estate risk is mainly caused by new investments and revaluations on existing assets. The increase in real estate risk is mainly caused by new investments and revaluations on existing assets. Overall the benefit of diversification between the risk types is lower than in 2015, as spread risk became more dominant in the risk allocation.

The OFaR for the fixed income bonds and mortgage loans is calculated within spread risk and the OFaR for the remaining fixed income loans is calculated within counterparty default risk. The OFaR for non-fixed income assets such as equity and real estate are addressed in the respective risk categories.

The table below sets out NN Leven's asset class values as at 31 December 2016 and 2015. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

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Investment assets (EUR, millions)

	Market value 2016	% of total 2016	Market value 2015	% of total 2015
Fixed income	**65,673**	**85%**	**60,826**	**86%**
Government bonds	36,656	48%	35,337	50%
Government loans	642	1%	627	1%
Financial bonds	2,387	3%	1,523	2%
Financial loans	1,009	1%	747	1%
Corporate bonds	6,433	8%	4,727	7%
Corporate loans	3,598	5%	3,074	4%
Asset Backed Securities	2,246	3%	2,969	4%
Mortgages[1]	12,620	16%	11,708	17%
Other Retail Loans	82	0%	114	0%
Non-Fixed income	**11,376**	**15%**	**9,451**	**13%**
Common & Preferred Stock	3,106	4%	2,957	4%
Private Equity	880	1%	803	1%
Real Estate[2]	5,612	7%	3,963	6%
Mutual Funds	1,778	2%	1,727	2%
Money Market Instrument	**94**	**0%**	**351**	**0%**
Total Investments	**77,143**	**100%**	**70,628**	**100%**

1 Mortgages are valued at amortised cost
2 In 2016 Q-Park (ad EUR 131,000) is excluded and forward commitments (ad EUR 626,000) are included from a risk point of view. In 2015 Q-Park and forward commitments were excluded.

The increase in total investment asset exposure is predominantly caused by a transfer of the separate account business to the own account. This explains the increase in corporate bonds which is in line with the Strategic Asset Allocation ('SAA'). Additional investments were executed in mortgages, loans and real estate.

The following sections provide more detail per risk type.

Equity risk

As shown in the asset tables above, equity plays a role in the own account by providing diversification and up-side return potential. This does present a risk which is measured as the 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 market value of NN Leven's equity assets as at 2016 and 2015, respectively.

Equity assets (EUR, millions)

	2016	2015
Common & Preferred Stock	3,106	2,957
Private Equity	880	803
Mutual Funds	1,777	1,727
Total	**5,763**	**5,487**

Within the own account, NN Leven is mostly exposed to publicly listed equity, but also invests in private equity funds and equity exposures through mutual funds.

As shown in the market and credit risk table, equity risk slightly decreased over the course of 2016 despite the increase in the investments listed above. This is primarily due to higher equity markets and additional investments in this asset class.

Risk mitigation

Exposure to equities provides for additional diversification and up-side return potential in the asset portfolio of an insurance company with long-term illiquid liabilities. The concentration risk on individual issuers is mitigated through relevant investment mandates. As mentioned, there is no natural hedge for equity risk on the liability side of the balance sheet for the general account portfolio, but from time to time NN Leven protects the downside risk of the equity portfolio by buying put options and other hedge instruments.

The OFaR for equity risk decreased from EUR 1.011 million to EUR 994 million. Although equity markets increased, the increase in equity risk is offset by model and assumption updates. The main model and assumption updates are:

- A new risk driver mapping of the separate account portfolio
- The look through approach for Parcom
- The new calibrated risk drivers in the equity model.

Real estate risk

With the long-term nature of the liabilities of NN Leven's own account, illiquid assets such as real estate can play an important role in the strategic asset allocation. Real estate risk is the risk of loss of market value of real estate assets. Market values are driven by a change in rental prices, required investor yield, and/or other factors.

Risk profile

NN Leven's real estate exposure increased from EUR 4,783 million at 31 December 2015 to EUR 5,742 million as at 31 December 2016. Real estate assets are presented including Q-Park and forward commitments. The amount is adjusted with the participation of 88.854% in NN REI. Compared to 2015 the real estate assets were presented excluding Q-Park and forward commitments and the 100% participation was presented. NN Leven has a majority interest in REI Investment I B.V., indirectly resulting in an exposure in two different categories of real estate: (i) investments in real estate funds, and (ii) real estate directly owned. Several of the real estate funds owned by NN Leven include leverage and therefore the actual real estate exposure within these funds is larger than NN Leven's actual real estate assets.

The 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 NN Leven's real estate exposure by sector type excluding leverage as at 31 December 2016 and 2015, respectively. Real estate is valued at fair value in the OFaR model. Fair value revaluations for 77% of the real estate portfolio directly affect the IFRS result before tax.

Real estate assets by sector

	Revalued through P&L 2016	Not revalued through P&L 2016	Revalued through P&L 2015	Not revalued through P&L 2015
Residential	5%	6%		8%
Office	13%	1%	16%	1%
Retail	42%	4%	40%	12%
Industrial	15%	5%	14%	2%
Other	3%	6%	1%	6%
Total	**78%**	**22%**	**71%**	**29%**

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio for an insurance company holding long-term illiquid liabilities. The concentration risk on individual issuers is mitigated through relevant investment mandates.

Risk measurement

Along with the increase in real estate assets and due to revaluations, favourable markets and higher assumed shocks on real estate through a recalibration of all the real estate risk drivers, the OFaR for increased from EUR 266 million to EUR 399 million.

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.

Risk profile

The table below provides an overview of NN Leven's insurance business' undiscounted best estimate policyholder liability cash flows (net of expenses and commissions) by maturity. The total of the liabilities increased in size mainly due to the growth in own account liabilities as a result of the transfer of separate account contracts, but the risk profile in itself is comparable to that of 2015.

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

Liabilities originated in

	Eurozone EUR	
Maturities	**2016**	**2015**
0-1	-2,528	-1,469
1-2	-2,885	-2,772
2-3	-2,889	-4,172
3-5	-6,348	-5,475
5-10	-13,275	-13,386
10-20	-22,496	-22,318
20-30	-15,427	-14,798
30+	-16,654	-14,950
Total	**-82,502**	**-79,340**

1 The 'minus' sign in the table means cash outflow from NN Leven to the policyholders, agents, intermediaries, and other expense related outflow

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

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As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows (about one third beyond the point at which extrapolation to the UFR begins), which relates primarily to the pension business.

Risk mitigation
NN Leven hedges its economic interest rate exposure by investing in long-term bonds and swaps matching liability maturities. The remaining interest rate gap may be, from time to time, further reduced through purchases of (forward starting) receiver swaps and swaptions. Interest rate risk management focuses on matching asset and liability cash flows as much as possible, where risk limits are set for the part that is considered to be hedgeable (< 30 years) and the part longer than 30 years.

Risk measurement
For purposes of discounting liabilities under Solvency II - therefore relevant for OFaR, NN Leven uses a swap curve less credit risk adjustment plus Volatility Adjustment. The Volatility Adjustment is treated as part of the credit spread risk. In line with Solvency II, NN Leven extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR) – as defined under Solvency II. The OFaR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

NN Leven's Own Funds are more at risk (higher OFaR) for changing interest rates, when the Volatility Adjustment is high and when interest rates are low - and thus the UFR impact on the value of the liabilities is high. Both these elements pose a distortion compared to the economic curve (leading to different liability valuation than asset valuation). At the end of 2016, (long-term) interest rates were considerably lower than at the end of 2015; the difference between the Solvency II curve and the market swap curve increased, accordingly exhibiting a higher risk to interest rates. The increasing divergence between the economic and regulatory duration gap is a key driver of the increase in interest rate risk.

OFaR does not currently include the change in value of the risk margin due to interest rate shocks. This is deemed to be conservative as the risk margin has the effect of lowering the risk for NN Leven under the Solvency II curve with the UFR.

The OFaR for interest rate risk increased from EUR 818 million at year-end 2015 to EUR 922 million at year-end 2016 due to portfolio developments and decreased interest rates.

Credit spread risk
Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, 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 liabilities. To the extent that the asset portfolio has a different asset mix than the reference portfolio for the Solvency II Volatility Adjustment, or to the extent that the duration of the liabilities is different than the assets or the assumptions in the Volatility Adjustment there is volatility in the Own Funds and this is captured as such in the OFaR calculation.

Risk profile
The table below sets out the market value of NN Leven's fixed-income bonds which are subject to credit spread risk OFaR by type of issuer at 31 December 2016 and 2015, respectively.

Fixed-income bonds by type of issuer (EUR, millions)

	Market value		Percentage	
	2016	2015	2016	2015
Government Bonds	36,656	35,337	77%	79%
Asset Backed Securities	2,246	2,969	5%	7%
Manufacturing	2,926	59	6%	0%
Finance and Insurance	2,387	1,523	5%	3%
Information	994	803	2%	2%
Utilities	934	720	2%	2%
Transportation and Warehousing	363	346	1%	1%
Mining, Quarrying, and Oil and Gas Extraction	224	199	0%	0%
Other[1]	992	2,658	2%	6%
Total	**47,722**	**44,614**	**100%**	**100%**

1 Other is comprised of general industries, automotive, retail, builders, contractors, beverages, foods and drinks

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 generation cash flows for 20 years and longer. The table below sets out the market value of NN Leven 's assets invested in government bonds by country and maturity.

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2016 Market value government bond exposures (EUR, millions)

		Market value of government bond 2016 by number of years to maturity[3]								
	Rating[1]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2016
Germany	AAA		114	10	20	951	3,693	3,776		8,564
Netherlands	AAA	11	31	48	291	802	1,445	4,480	275	7,383
France	AA					40	1,265	2,161	3,866	7,332
Japan	A			81	311	801	794	1,338	651	3,976
Belgium	AA			8	125	744	1,356	1,581		3,814
Austria	AA			47	200	292	57	603		1,199
Italy	BBB					104	212	587		903
European Union[2]	AAA						824			824
Spain	BBB				6	55	127	360		548
Finland	AA					181	169			350
Poland	A						278			278
Others		22	2	62	110	416	477	396		1,485
Total		**33**	**147**	**256**	**1,063**	**4,386**	**10,697**	**15,282**	**4,792**	**36,656**

1 NN Leven uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds
2 Includes EIB, ECB, EFSF, EU and ESM
3 Based on legal maturity date

2015 Market value government bond exposures (EUR, millions)

		Market value of government bond 2015 by number of years to maturity								
	Rating	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2015
Germany	AAA	7	0	120	66	971	3,524	3,555		8,243
Netherlands	AAA		5	32	51	1,043	1,496	4,315	346	7,287
France	AA					38	1,195	1,974	3,390	6,598
Austria	AA+	3			219	542	1,402	1,221	576	3,963
Belgium	AA				134	545	1,465	1,439		3,583
Finland	AAA				209	326	54	547		1,136
European Union	AAA	60		2	91	147	216	568		1,083
Italy	BBB						848			848
Spain	BBB+					50	203	549		802
Poland	A						282			282
Japan	A+					200				200
Others		17	22		36	503	472	260		1,311
Total		**87**	**27**	**154**	**806**	**4,365**	**11,157**	**14,428**	**4,312**	**35,337**

Of the EUR 16 billion German and Dutch government bonds more than half will mature after 20 years; more than 80% of the EUR 7.3 billion of French government bonds will mature after year 20. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. In the OFaR model, all government bonds contribute to credit spread risk including those rated AAA.

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

2016 Market value non-government bond securities – excl. lending positions (EUR, millions)[1]

	Market value of non-government bond securities by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2016
AAA	16	11	45	60	109	7	356	1,094	1,698
AA	37	216	87	362	507	396	334	116	2,055
A	376	274	284	678	1,339	37	121	81	3,190
BBB	94	89	385	563	1,820	181		51	3,183
BB	25	28	89	159	273	8		66	648
B			66	103	117				286
CCC	6								6
Total	**554**	**618**	**956**	**1,925**	**4,165**	**629**	**811**	**1,408**	**11,066**

1 Compared to 2015 the total figure in the table non-government bond securities shows a decrease. This is caused by the fact that non-government lending is excluded in the 2016 table compared to the previous year. The amount including the lending positions in 2016 is EUR 15.673.

2015 Market value non-government bond securities – excl. lending positions (EUR, millions)

	Market value of non-government bond securities 2015 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2015
AAA	31	34	271	169	867	385	953	1,175	3,885
AA	153	106	193	381	369	527	292	43	2,064
A	304	475	369	526	798	99	236	653	3,460
BBB	161	237	165	744	1,334	275	30	85	3,031
BB	14	46	21	118	81	11		70	361
B		3	4	97	131				235
CCC			1		1				2
Total	**663**	**901**	**1,024**	**2,035**	**3,581**	**1,297**	**1,511**	**2,026**	**13,038**

The table below sets out NN Leven's holdings of asset-backed securities by market value of asset type and the percentage of NN Leven's total asset-backed securities portfolio as at 31 December 2016 and 2015, respectively. In line with the growth towards the SAA, the asset backed securities will be replaced by corporate bonds and corporate loans.

Asset backed securities (EUR, millions)

	Market value 2016	% of total 2016	Market value 2015[1]	% of total 2015
RMBS	1,917	85%	2,210	74%
Other	329	15%	759	26%
Total	**2,246**	**100%**	**2,969**	**100%**

1 2015 restated to match new classification

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, The concentration risk on individual issuers is managed using rating-based issuer limits effectively managing the default risk of the issuers. Furthermore NN Leven has started using forward bonds that mitigate the credit spread risk on government bonds.

Risk measurement

The OFaR for credit spread risk reflects, with 95% level of confidence, the risk of Own Funds to spread movements – impacting fixed income assets held in the own account and the liabilities in the own account due to the Solvency II Volatility Adjustment. Fixed income assets are shocked with severity linked to a 1-in-20 year event (or 95% level of confidence) and depending on the credit class, rating and duration. Given that the own account liabilities are valued using the Solvency II Volatility Adjustment, shocks are applied to the reference portfolio to determine the level at which the liabilities will be valued in under a 1-in-20 scenario. This has a positive impact on Own Funds, offsetting the negative impact on the asset-side. In this regard, the OFaR spread model identifies mismatches (basis difference) between the own account assets and the reference portfolio, and seeks the worst case loss for scenarios within the desired level of confidence.

Note that the spread model used for OFaR assesses the impact on Own Funds under adversity and follows the dynamics of the balance sheet valuation.

The table below sets out NN Leven's OFaR for credit spread risk.

OFaR – Spread risk: Own account (EUR, millions)

	2016	2015
Credit spread risk assets	3,926	3,207
Credit spread risk liabilities: Effective capital offset from volatility adjustment	1,104	1,650
Total Credit Spread risk net of Volatility Adjustment (after diversification)	**1,419**	**1,339**

The increase in credit spread risk is mainly driven by the treatment of mortgages under spread risk instead of counterparty default risk, the transfer of assets from the separate account to the own account and the lower interest rates compared to the end of 2015. Model changes also contributed to the increased OFaR of spread risk, as a result of the recalibration of shocks applied for government and corporate bonds. The increase was also marginally enhanced by the lower volatility adjustment offset as a result of EIOPA reference portfolio update, which became effective as of the third quarter of 2016. A closer resemblance of the NN asset positions to the VOLA reference portfolio in 2016 compared to 2015 offsets to a certain extent the higher credit spread.

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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 OFaR 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.

The counterparty default risk module covers any credit exposures which are not covered in the spread risk sub-module. For each counterparty, the counterparty default risk module takes account of the overall counterparty risk exposure pertaining to that counterparty.

The counterparty default risk exposure is split in Type I and Type II exposures. The class of Type I exposures covers the exposures which may not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The class of Type II exposures attempts to cover the exposures which are usually diversified and where the counterparty is likely to be unrated, predominantly loans, but also other forms of term lending not covered in Type I. These two classes form the basis for the respective capital treatment in the counterparty default risk module.

Risk profile
The OFaR for Type II assets is the main contributor to the total counterparty default risk, particularly due to loan exposures. NN Leven has increased its exposure to loans primarily in to corporate loans during 2016. Cash is the largest Type I exposure. Other sources of counterparty default risk include reinsurance and the claims on counterparties from over-the-counter derivatives. Furthermore, during 2016, the mortgages have been removed from the scope of the counterparty default risk calculation and included in the scope of credit spread risk. As a result of all the changes, the overall OFaR for counterparty default risk reduced by EUR 57 million.

Risk mitigation
NN Leven uses different credit risk mitigation techniques. For OTC derivatives, the use of International Swaps and Derivatives Associations master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral. For cash and money market funds, limits per counterparty are put in place.

Risk measurement
The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated. The overall OFaR for counterparty default risk reduced by EUR 57 million, mainly as a consequence of the removal of the mortgage portfolio from the scope of counterparty default risk to credit spread risk.

Mortgages
The Loan-to-Value ('LTV') for residential mortgages, which is based on the net average loan to indexed value at NN Leven stands at 86% (2015: 87%), due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2014 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 accounted for 19% (2015: 20%) at NN Leven at 31 December 2016.

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan ('NPL') if the arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid in full. The decrease in delinquencies and non-performing loans is due to the improving housing market and economic environment and a more efficient process for handling problem loans. The decrease in remaining exposure at risk is caused by the increasing house prices and the cap at maximum LTV for new production.

Credit quality: NN Leven mortgage portfolio, outstanding (EUR, millions)[1]

	NN Leven	
	2016	2015
Performing mortgage loans	11,457	10,376
Non-performing mortgage loans	110	170
Total	**11,567**	**10,546**

1 Risk figures and –parameters do not include third party originated mortgages and collateralized mortgages although they are on the balance sheet of NN Leven

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

	NN Leven	
	2016	2015
Past due for 1–30 days	86	47
Past due for 31–60 days	46	109
Past due for 61–90 days	39	42
Past due for > 90 days	77	137
Total	**248**	**335**

Net exposure on mortgage loans (EUR, millions)[1]

	NN Leven	
	2016	2015
Carrying value	11,567	10,546
Indexed collateral value of real estate	14,916	13,062
Saving held	612	557
NHG guarantee value	1,901	1,836
Total cover value + NHG guarantee capped carrying value[2]	11,338	10,133
Net exposure	**229**	**413**

1 Risks figures and parameters do not include mortgages fully collateralised by savings insurance contracts although they are on the balance sheet of NN Leven (total 1.4 billion)
2 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions

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 local currency instead of NN Leven's reporting currency, 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 OFaR of NN Leven.

Risk measurement

The increase in OFaR for foreign exchange risk from EUR 40 million at year-end 2015 to EUR 60 million at year-end 2016 is caused by positions in other currencies which are not fully hedged.

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. NN Leven's earnings from the separate account businesses are primarily driven by fee income. However, NN Leven retains risk associated with the guarantees provided to its policyholders. Businesses in this separate account category are (i) the Leven pension business for which guarantees are provided; and (ii) other separate account business, primarily the unit-linked business. This section refers to separate account business only.

Separate account guaranteed group pension business (EUR, millions)

	2016	2015
Account value	5,456	8,630
Additional IFRS provision for guarantee	516	584

Risk profile

In the separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their contract with NN Leven. Regardless of actual returns on these investments, NN Leven guarantees pension benefits for the beneficiaries under the contract. Contracts are typically re-negotiated every five years, but the guarantee obligations to the beneficiaries survive termination of the contract with the sponsor employer unless otherwise agreed.

In principle, the sponsor employer selects the investments based on a basket of equity, fixed income, and real estate instruments 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 2016, the decrease in account value is approximately equal to the amount transferred from the separate account to the own account. Furthermore, decreasing interest rates increased the value of the fixed income assets.

Risk mitigation

NN Leven currently hedges the value of the guarantees it provided under Leven pension contracts. For the purpose of hedging, 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 more easily hedge, thus reducing the risk to NN Leven.

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 OFaR 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 programs.

The table below sets out the OFaR for the market and credit risk of the separate account businesses as at 2016 and 2015, respectively.

OFaR for the separate account businesses (EUR, millions)

	2016	2015
Separate account guaranteed group pension business	337	285
Other separate account business (unit-linked)	76	69
Diversification benefit	-147	-126
Total	**266**	**228**

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. NN Leven manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Leven's business can meet immediate obligations.

Risk profile
NN Leven identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk is risk that a company will not have the funds to meet its financial obligations when due. Market liquidity risk 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
NN Leven's Liquidity Management Principles 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
- 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 a NN Leven specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. The liquidity position of NN Leven is monitored on an ongoing basis in line with the internal risk management liquidity framework. There are liquidity limits in place. The Treasury function at NN Leven is responsible for Liquidity Management.

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. NN Leven manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Leven's business can meet immediate obligations. Accordingly, NN Leven does not calculate a specific OFaR for liquidity risk as liquidity is sufficiently available.

As of 21 December 2016 all new interest rate swaps in G4 currencies (EUR, USD, GBP, JPY, including forward starting swaps) traded on behalf of NN Leven are mandatory to be centrally cleared. NN Leven started with central clearing for these derivatives as from 21 May. Centrally cleared derivatives will be subject to additional collateral requirements. Besides the day to day exchange of variation margin in cash to cover the change in mark to market value of the derivative, initial margin in securities or cash needs to be posted as well. The initial margin requirement is taken into account when measuring liquidity risk.

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 of financial or reputational loss 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 financial or reputational 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 financial or reputational 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 based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of operational risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

NN Leven conducts regular operational risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with 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 Leven 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

NN Leven's OFaR for operational risk was with EUR 129 million at 31 December 2016 comparable to the operational risk of 2015 (EUR 121 million). The OFaR is calculated based on the standard formula for Solvency II. As it is additive to the modelled OFaR, it should be considered as net of diversification with other NN Leven risks.

Compliance risk

Risk profile

Through NN Leven's retirement services and insurance products, NN Leven is committed to helping our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision making. Further, NN Leven is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates ('Compliance Risk'). All employees are expected to adhere to these laws, regulations and ethical standards, and management is ultimately responsible.

Risk mitigation
NN Leven separates compliance risk into seven risk areas: behavior & culture, policy, communication, clients & third parties, products & services, business organisation and business processes. 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 our values. NN Leven also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and events, anti-bribery, customer suitability as well as a code of conduct for its personnel. Furthermore, NN Leven designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

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 distribution practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and distribution practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together to optimize both products and services to meet the customers' needs.

Solvency Capital Requirement based on the Partial Internal Model

Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU. It replaced the regulatory regime which was based on the EU Solvency I directive. As of 1 January 2016 Solvency II is implemented in The Netherlands via the Wft.

Solvency II capital requirements for NN Leven are based on the approved Partial Internal Model. The NN Leven capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements while the Standard Formula is used to calculate capital requirements for operational risk.

The choice for a partial internal model is based on the conviction that an Internal Model better reflects the risk profile of our business and has additional benefits for risk management purposes:

- An Internal Model approach can better reflect the specific assets and therefore the market risk in the portfolio of NN Leven e.g. sovereign and other credit spread risks. In addition the approach to the most significant non-market risks within NN Leven such as longevity (trend uncertainty) and expense risk (closed block treatment) can be better tailored to the specific portfolio characteristics.

The following table shows the NN Leven capital requirements at year-end 2016:

NN Leven capital requirements (EUR, millions)

	2016
Interest Rate Risk	1,253
Equity Risk	1,497
Spread Risk	1,863
Real Estate Risk	805
FX Risk	96
Inflation Risk	53
Diversification between Market Risks	-2,791
Market Risk	**2,776**
Counterparty Default Risk	217
Basis Risk	57
Diversification between Market, Counterparty Default Risk and Basis Risk	-62
Market Risk (including Basis Risk and Counterparty Default risk)	**2,988**
Life Risk	3,244
Non-Market Risk	**3,244**
Diversification between Market Risk including Basis Risk and Counterparty Default risk and Non-Market Risk	-1,611
Total BSCR	**4,621**
Operational Risk	329
LACTP	-50
LACDT	-1,129
Total SCR	**3,771**

IFRS Net result sensitivity analysis

Following the risk appetite described above, NN Leven also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate a 1-in-20 year risk for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity Descriptions	Description
Interest rate risk	Measured by parallel upward and downward 1-in-20 shocks in interest rates. Under IFRS-EU, NN Leven values its 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 net result through liability valuations, unless the adequacy of the insurance liabilities of a segment falls below the 50th percentile level, in which case reserves need to be strengthened. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded at amortised cost. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates.
Equity risk	Measured by the maximum loss between an 31% upward and downward shock in equity prices. Equity shocks can impact IFRS net results due to (amongst others): impairment losses, fair value accounting and fee income in unit-link accounts.
FX risk	Measured by the impact of the worse of a 20% upward or downward movement in all currencies compared to the euro. IFRS net result can be impacted by FX movements in coupons, positions classified as Trading, or the amortised cost part of Assets classified as Available-for-sale.
Credit spread risk	Determined using 1-in-20 Value at Risk shocks for marked-to-market individual assets. AAA government bonds are shocked for this sensitivity calculation. IFRS net result can be impacted by changes in spreads in impaired assets, positions classified as Trading, guarantees and/or fees on unit linked/variable annuity.
Counterparty default risk	Determined using 1-in-20 shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market (Type 1) and Loans, including residential mortgages (Type 2).
Real estate price risk	This is measured by the impact of an 8% drop in real estate prices only for the minority holdings and for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by a drop in prices.
Variable Annuity risk	Where fair value accounting is used, sensitivities to IFRS net result is based on changes in market value in a 1-in-20 with loss-absorption of taxes based on IFRS.
Mortality (Including Longevity)	
Morbidity	IFRS net result can be impacted by 1-in-20 insurance risk shocks to the extent that they are within a one-year horizon. Multi-year risks related to volatility and uncertainty are therefore not shocked.
P&C	

Sensitivities of IFRS net result

The table below sets out various market and insurance risk impacts of one year 1-in-20 year sensitivities for IFRS net result.

Estimated IFRS net result sensitivities (EUR, millions)

		2016	2015
	Interest Rate Upward Shock	-26	-95
	Interest Rate Downward Shock	56	56
	Equity –31%	-281	-280
Market risk and credit risk	Equity +31%	82	15
	Real estate –8%	-279	-202
	FX –20%	-42	-78
	Counterparty default	-70	-42
	Mortality (including longevity)	-13	-22
Insurance risk	Morbidity	-9	-11
	P&C		

Compared to 2015, interest rate risk mainly changes due to a changed interest rate sensitivity of the separate account book. Due to the differences between IFRS and Solvency II accounting, the IFRS net result has different sensitivities under a 1-in-20 than the Solvency II Own Funds (as measured by OFaR). In general:

- Market shocks only flow through to the IFRS net result to the extent the underlying asset/liability is market-valued under IFRS and/or impairments would need to be taken
- Non-market risks are only impacted by higher claims or higher expenses in one year and not normally by a reassessment of best estimate actuarial assumptions in the provisions as may be the case under Solvency II

Since the separate account pension business is managed on a fair value basis, the IFRS interest rate sensitivities of the separate account business are quite volatile. Also, interest rate sensitivity change also reflects a methodology update during the year: the values calculated for the end of 2015 were based on relative shocks applied on relevant tenors on the interest rate term structure, while, for the end of 2016, they are based on an absolute, parallel shock of +1% (for the upward shock) and -1% (for the downward shock) applied for all tenors. The update aims to align the shocks applied for IFRS net result sensitivities with the shocks defined under the Solvency II methodology and used for OFaR calculations.

Equity risk causes volatility in the EaR because of the sensitivity of impairment risk to equity movements. Furthermore, the valuation of equity on a fair value basis also leads to volatility. The equity risk as per 31 December 2016 primarily relates to the own account equity holdings and the hedging of the separate account pension business. The IFRS net result sensitivity has changed compared to 2015 due to the adjusted hedge positions of the separate account assets to capture the changed sensitivities of the liabilities due to the release of the profit sharing.

Real estate IFRS net result sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS net result. Real estate risk increased mainly due to a higher exposure (new investments and increase in real estate prices) and the fact that the portfolio contains more real estate positions with participation larger than 20%, resulting in more real estate exposure 'valued through P&L'.

Counterparty default risk increases due to a higher mortgages exposure.

44 Capital and liquidity management

Objective
The goal of NN Leven's capital and liquidity management is to adequately capitalise NN Leven and have sufficient liquid funds available to meet its obligations in the interests of its stakeholders, including customers and shareholders. The capital and liquidity position is assessed based on regulatory and economic requirements.

Capital and liquidity management involves the management, planning and execution of transactions concerning the capital position and the funding of NN Leven, either internal or external. Capital and liquidity management at NN Leven is performed in close cooperation with NN Group.

NN Leven is a Dutch life insurance company and is therefore supervised by the Dutch regulator, DNB. The supervision takes place based on rules and regulations, as defined in the Dutch Financial Supervision Act (Wet op het financieel toezicht, 'Wft') and further DNB guidelines as issued from time to time.

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

The capital position of NN Leven is evaluated in three perspectives: the statutory position, the economic point in time perspective and a dynamic forward looking perspective. The statutory position monitors whether NN Leven fulfils the solvency requirements. The economic point in time perspective start from the statutory solvency and applies adjustments to create a (more) economic balance sheet, by replacing regulatory valuation curve corrections with the valuation curve based on our own assets, and some other corrections for the risk margin and for tiering of own fund components. The dynamic perspective (also referred to as capital creation) considers how the capital position develops over time, taking into account the development of the technical provisions including risk margin, in relation to the development of the assets and capital requirements.

The liquidity position of NN Leven is monitored by taking into account possible events with an impact on the liquidity position like insurance claims, investments and collateral requirements from derivative transactions.

Main events in 2016
On 23 March, 29 June, 29 September and 28 December NN Leven paid a dividend of EUR 150 million out of the ´Other reserves´.

All scheduled coupon payments of the subordinated liabilities were met during the year.

As from 21 May all new interest rate swap transactions of NN Leven are centrally cleared. This means NN Leven will face a clearing house as counterparty. Swap transactions will no longer use NN Interfinance. The existing book of interest rate swaps remains at NN Interfinance. Over the counter ('OTC') derivatives will not be centrally cleared and NN Leven will continue to use NN Interfinance for OTC derivatives.

On 3 June S&P withdrew the credit rating of NN Leven. This was on the request of NN Leven, as it was no longer deemed necessary to have an external credit rating.

In October and November two loan agreements were signed with NN Interfinance. One facility with due date on 31 January 2017 for a notional amount of EUR 1,500 million, the second with a (renewable) one year tenor for a notional amount of EUR 250 million. The loans are made available subject to conditions on the availability of liquid funds at NN Interfinance. At year end 2016 the EUR 1,500 million loan facility was not utilised, the EUR 250 million loan facility was fully utilised. Per year end 2016 NN Leven has outstanding external short term borrowing covered by securities lending transactions for the amount of EUR 1,500 million.

The purpose of the two loan facilities and the short term borrowing is to smoothen the investment process in the light of significant incoming liquid funds per January 2017 and to cover possible liquidity requirements out of central clearing obligations for the centrally cleared derivatives from NN Leven.

On 30 November DNB issued principles and expectations regarding capital management on their website. Based on these principles the insurance industry is in discussion with DNB to look for a consistent implementation across the industry of the principles and expectations.

On 8 December DNB provided guidance on a request for further information on the impact of the UFR in the calculation of the Solvency II technical provisions at reporting date and on the run off from the insurance liabilities. This only applied to technical provisions reported under Solvency II.

Notes to the Consolidated annual accounts
Continued

Subsequent events
In January 2017 NN Leven repaid the outstanding on the loan agreements with NN Interfinance.

In January 2017 NN Leven repaid the short term borrowing from the securities lending transactions.

In March 2017 NN Leven made a dividend distribution of EUR 150 million to its shareholder NN Nederland. This distribution does not impact solvency ratios per year end 2016. In the 2015 annual accounts the EUR 150 million dividend of March 2016 was subtracted from the reported solvency ratio.

Solvency II
Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU. It replaced the regulatory regime which was based on the EU Solvency I directive. As of 1 January 2016 Solvency II is implemented in The Netherlands via the Wft.

Under the Solvency II regime, the required capital (Solvency Capital Requirement) is risk-based and calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon. Available capital (Own Funds) is determined as the excess of assets over liabilities, both based on economic valuations, plus qualifying subordinated debt. The Solvency II directive requires that insurance undertakings hold sufficient Eligible Own Funds to cover the Solvency Capital Requirement.

NN Leven uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The regulatory approval of the model from the Dutch regulator (DNB) was received in December 2015. The PIM is subject to a strict governance, and parts of it may be subject to change.

The reported Solvency II capital ratios of NN Leven do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on in the past, as this potential liability cannot be reliably estimated or quantified at this point.

NN Leven is well capitalised at 31 December 2016 with a Solvency II ratio of 203% based on the PIM.

Eligible Own Funds and Solvency Capital Requirement (EUR, millions)

	2016	2015
Shareholder's equity	15,895	13,831
Elimination of deferred acquisition costs and other intangible assets	-253	-256
Valuation differences on assets	1,555	1,829
Valuation differences on liabilities, including insurance and investment contracts	-13,490	-10,975
Deferred tax effect on valuation differences	3,030	2,335
Excess assets/liabilities	**6,737**	**6,764**
Qualifying subordinated debt	1,155	1,114
Foreseeable dividends and distributions	-20	-150
Basic Own Funds	**7,872**	**7,728**
Non-eligible Own Funds	227	163
Eligible Own Funds to cover Solvency Capital Requirements (a)	**7,645**	**7,565**
Solvency Capital Requirements (b)	**3,771**	**3,501**
NN Leven Solvency II ratio (a/b)[1]	**203%**	**216%**

1 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the partial internal model

In 2015 the Basic Own Funds were decreased by the dividend paid in March 2016, and in 2016 the Eligible Own Funds are decreased by foreseeable coupons on the Subordinated liabilities.

Development solvency during 2016

Over 2016, the Solvency ratio of NN Leven decreased from 216% to 203% at 31 December 2016.

The Solvency ratio II is influenced by the movement of Own Fund and the Solvency Capital Requirements ('SCR').

The SCR has increased by EUR 270 million, which is mainly driven by Interest rate and Real Estate risk. Further the Deferred Tax Asset ('DTA') has increased, from EUR 689 million by end of 2015 to EUR 793 million. The change in DTA and SCR result into higher ineligible Own Funds of EUR 64 million. The increase of SCR over 2016 results into 13% points lower Solvency ratio, and the decrease of the Eligible Own funds results into a Solvency ratio of 203% at the end of 2016.

Structure, amount and quality of own funds

Subordinated liabilities included in NN Leven eligible own funds for Solvency II reporting:

In the eligible own funds of NN Leven there are two subordinated liabilities.

Interest rate	Year of issue	Notional amount	Due date	First call date	Own funds tier	Fair value (dirty) 2016[1]	Fair value (dirty) 2015[1]
4.52% (quarterly payments)	2014	450 million	Perpetual	30 May 2019	Tier 1 (after grandfathering)	469 million	470 million
5.6% (annual payments)	2014	600 million	10 February 2044	10 February 2024	Tier 2 (after grandfathering)	686 million	644 million

1 As defined based on Solvency II valuation guidelines

The subordinated liabilities listed in the table above are borrowed from NN Group.

Eligible Own Funds

NN Leven own funds are classified into three tiers as follows:

- The excess of assets over liabilities on the basis of consolidated accounts excluding net Deferred Tax Asset is classified as Tier 1
- The own funds generated by the net Deferred Tax Asset is classified as Tier 3
- The perpetual subordinated debt is classified as Tier 1
- The 2044 subordinated debt is classified as Tier 2

There are a number of regulatory restrictions on the amounts classified as Restricted Tier 1, Tier 2 and Tier 3 capital. The following restrictions have to be taken into account:

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount
- Tier 2 and Tier 3 capital together cannot exceed 50% of the SCR
- Tier 3 capital cannot exceed 15% of the SCR

On 31 December 2016 the SCR is EUR 3,771 million. The application of the restrictions can be found in the table below. The amount of Eligible Own Funds to cover the SCR is EUR 7,645 million.

Notes to the Consolidated annual accounts
Continued

Eligible own funds to cover Solvency Capital Requirement

2016 (in EUR million)	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	6,393			6,393
Of which:				
- unrestricted Tier 1	5,924			5,924
- restricted Tier 1	469	Less than 20% Tier 1		469
Tier 2 + Tier 3	1,479	Less than 50% SCR	227	1,252
Tier 2	686			686
Tier 3	793	Less than 15% SCR	227	566
Total	7,872		227	7,645

Capital adequacy assessment
The capital position of NN Leven met all regulatory solvency requirements following the Solvency II directive throughout 2016.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Leven for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Management Board on 30 March 2017. The Management Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting.

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

Rotterdam, 30 March 2017

The Management Board
M.F.M. (Michel) van Elk, CEO and chair

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

A.J. (Arthur) van der Wal

T. (Tjeerd) Bosklopper

The Supervisory Board
D.E. (Dorothee) van Vredenburch, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

D.E. (David) Knibbe

Confirmed and adopted by the General Meeting, dated 7 June 2017

Parent company balance sheet

Amounts in thousands of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result

	notes	2016	2015
Assets			
Intangible assets		9,078	9,358
Investments in group companies and associates:			
– investments in group companies	2	4,969,717	4,083,901
– bonds issued by and receivables from group companies	3	615,135	394,879
– other associates		18,600	19,287
Other financial investments:			
– bonds and other fixed-income securities		46,378,523	42,488,960
– shares, units of participation and other variable-income securities	4	4,414,082	4,359,713
– interest in investment pools	5	234,142	130,905
– receivables from mortgages		12,620,249	11,700,425
– receivables from other loans	6	6,301,108	6,868,766
– deposits with credit institutions	7	217,060	210,370
Deposits with insurers		143	133
Derivatives	8	3,030,669	3,057,161
Investments for risk of policyholders	9	15,001,771	18,012,435
Reinsurance contracts	14	1,157,953	1,192,584
Receivables:			
– receivables from policyholders		171,126	99,355
– receivables from intermediaries		1,883	3,469
– receivables from reinsurance		19,778	35,685
– other receivables	10	941,897	204,266
– income tax receivable		7,834	15,934
Other assets:			
– other assets		1,326	1,336
– cash and cash equivalents	11	65,132	23,396
Accrued assets:			
– accrued interest	12	950,287	972,270
– deferred acquisition costs		243,480	264,577
– other accrued assets		1,533	961
Total assets		**97,372,506**	**94,150,126**

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

Parent company balance sheet
Continued

Parent company balance sheet – continued

As at 31 December before appropriation of result

	notes	2016	2015
Equity	13		
Share capital		22,689	22,689
Share premium		3,228,030	3,228,030
Legal reserves		1,055,041	921,940
Revaluation reserve		8,436,876	6,726,927
Other reserves		2,164,417	1,861,931
Unappropriated profit		987,465	1,069,827
Shareholder's equity		**15,894,518**	**13,831,344**
Undated subordinated loan		450,000	450,000
Total shareholder's equity		**16,344,518**	**14,281,344**
Liabilities			
Subordinated debt		600,000	600,000
– technical provisions	14		
– technical provisions for life insurance		47,051,218	45,447,422
– technical provisions for profit sharing and rebates		11,816,540	10,728,236
– other technical provisions		234,695	228,871
Technical provisions for insurance for risk of policyholders		13,657,407	15,986,504
Derivatives	15	744,661	535,901
Deferred tax liabilities	16	2,237,465	1,647,835
Other provisions	17	716,594	764,389
Deposits from reinsurers		1,079,824	1,114,555
Liabilities:			
– liabilities from direct insurance		760,979	602,401
– other bonds and private loans	18	1,956,721	2,034,972
– other liabilities	19	108,719	100,500
Accrued liabilities	20	63,165	77,196
Total liabilities		**81,027,988**	**79,868,782**
Total equity and liabilities		**97,372,506**	**94,150,126**

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

Parent company profit and loss account

Parent company profit and loss account

For the year ended 31 December

	notes	2016	2015
Premiums written – net of reinsurance			
Gross premiums		2,386,682	2,864,491
Reinsurance and retrocession premiums		-165,578	-185,343
Investment income	21		
Result from associates		465,227	499,385
Income from other investments		2,173,244	2,119,711
Realised gains on investments		248,771	332,233
Unrealised gains on investments	21	1,146,116	970,094
Net other technical income	22	348,309	608,510
Benefits net of reinsurance			
Gross benefits		4,427,089	4,562,831
Reinsurance recoveries		-149,924	-164,150
Change in technical provision for life insurance	23		
– gross change		-1,701,973	-927,790
– change in reinsurers' share		5	988
– other technical provisions		-5,824	-23,202
Profit sharing and rebates	23	1,623,484	1,221,580
Operating expenses			
Acquisition costs		74,856	82,175
Management and staff expenses, equipment deprecation	24	410,227	420,261
Commissions and profit sharing received from reinsurers		-2,177	-782
Investment expenses			
Management expenses and interest	25	122,374	139,490
Impairments on investments	21	62,652	95,790
Realised losses on investments	21		301,755
Unrealised losses on investments	21	28,633	
Other net technical expenses	26	590,288	333,439
Investment income allocated to non-technical account		527,203	487,682
Result of life insurance technical account		595,858	679,014
Non-technical account			
Result of life insurance technical account		595,858	679,014
Allocated investment income transferred from technical account		527,203	487,682
Other income		10,894	1,642
Result from ordinary activities before taxation		**1,133,955**	**1,168,338**
Tax on result from ordinary activities	27	-146,490	-98,511
Result from ordinary activities after taxation		**987,465**	**1,069,827**

Parent company statement of changes in equity

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 2016	**22,689**	**3,228,030**	**921,940**	**6,726,927**	**2,931,758**	**450,000**	**14,281,344**
Revaluations			-8,384	2,638,191			2,629,807
Changes in cash flow hedge reserve				551,077			551,077
ABS reserve amortisation				31,369			31,369
Deferred profit sharing liability				-934,891			-934,891
Transfer to legal reserves			466,140		-466,140		
Dividend from associates			-324,375		324,375		
Other changes			-280		-11,558		-11,838
Exchange rate differences				-11,854	9		-11,845
Changes in deferred taxes				-563,943	1,228		-562,715
Total amount recognised directly in equity (Other comprehensive income)			**133,101**	**1,709,949**	**-152,086**		**1,690,964**
Dividend paid					-615,255		-615,255
Net result					987,465		987,465
Balance as at 31 December 2016	**22,689**	**3,228,030**	**1,055,041**	**8,436,876**	**3,151,882**	**450,000**	**16,344,518**

	Share capital	Share premium	Legal reserves	Revaluation reserve	Other reserves[1]	Undated subordinated loan	Total
Balance as at 1 January 2015	**22,689**	**3,703,030**	**769,237**	**7,412,949**	**2,299,109**	**450,000**	**14,657,014**
Revaluations			25,733	-1,187,638			-1,161,905
Changes in cash flow hedge reserve				-569,097			-569,097
ABS reserve amortisation				9,371			9,371
Deferred profit sharing liability				725,493			725,493
Transfer to legal reserves			499,385		-499,385		
Dividend from associates			-361,212		361,212		
Other changes			-11,203		-1,084		-12,287
Exchange rate differences				11,459	699		12,158
Changes in deferred taxes				324,390	6,635		331,025
Total amount recognised directly in equity (Other comprehensive income)			**152,703**	**-686,022**	**-131,923**		**-665,242**
Dividend paid		-475,000			-305,255		-780,255
Net result					1,069,827		1,069,827
Balance as at 31 December 2015	**22,689**	**3,228,030**	**921,940**	**6,726,927**	**2,931,758**	**450,000**	**14,281,344**

1 'Other reserves' includes 'Retained earnings' and 'Unappropriated result'

Notes to the Parent company annual accounts

1 Accounting policies

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 Parent 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.

Due to an amendment to the Dutch Civil Code, NN Leven is no longer permitted to present a condensed parent company profit and loss account under Section 402 of Part 9 of Book 2 of the Dutch Civil Code. Therefore, as of 2016 the parent company profit and loss account is presented in a full, uncondensed, format. In line with the requirements for an accounting policy change, the comparatives for the year 2015 are presented in the new format as well.

A list containing the information referred to in Article 379 (1), Part 9 of Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of the Chamber of Commerce, in accordance with Article 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.

Investment income allocated to the non-technical account

Investment income allocated to the non-technical account consists completely of investment income allocated to equity. Investments allocated to equity consist of shares, fixed-income securities and mortgages. The allocation of income from shares is based on the proportional share of shareholder's equity in the total portfolio. Income from investments allocated to the non-technical account is determined after deducting investment expenses.

2 Investments in group companies

Investments in group companies

	2016	2015
REI Investment I B.V.	4,037,483	3,256,072
Private Equity Investments II B.V.	603,316	607,041
Korea Investment Fund B.V.	132,580	144,175
Private Equity Investments B.V.	195,590	75,895
Other	748	718
Investments in group companies	**4,969,717**	**4,083,901**

Changes in Investments in group companies

	2016	2015
Investments in group companies - opening balance	4,083,901	3,683,901
Investments	752,770	242,659
Result of group companies	462,921	489,975
Dividend	-322,075	-358,913
Revaluations	-7,800	26,279
Investments in group companies - closing balance	**4,969,717**	**4,083,901**
Breakdown of balance sheet value:		
Cost	3,940,315	3,206,831
Cumulative revaluations	1,029,402	877,070
Investments in group companies	**4,969,717**	**4,083,901**

Notes to the Parent company annual accounts
Continued

3 Bonds issues by and receivables from group companies

	2016	2015
REI Investment I B.V.	157,449	211,411
Private Equity Investments B.V.	45,301	108,588
Mittelstand Senior Debt Investment B.V.	376,635	42,980
Infrastructure Debt Investments B.V.	35,750	31,900
Bonds issued by and receivables from group companies	**615,135**	**394,879**

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

Changes in Shares. units of participation and other variable-income securities

	2016	2015
Shares, units of participation and other variable-income securities - opening balance	4,359,713	4,193,178
Investments	337,310	449,748
Disposals	-377,915	-669,996
Revaluations	89,376	256,377
Impairments	-62,652	-95,790
Realised result	79,707	214,465
Exchange rate differences	-11,456	11,778
Other changes	-1	-47
Shares, units of participation and other variable-income securities - closing balance	**4,414,082**	**4,359,713**
Breakdown of balance sheet value:		
Cost	3,187,673	3,353,837
Cumulative revaluations	1,226,409	1,005,876
Shares, units of participation and other variable-income securities	**4,414,082**	**4,359,713**
Listed	3,634,202	3,361,577
Unlisted	779,880	998,136
Shares, units of participation and other variable-income securities	**4,414,082**	**4,359,713**

5 Interest in investment pools

Changes in Interest in investment pools

	2016	2015
Interest in investment pools - opening balance	130,905	80,067
Investments	103,705	50,270
Disposals		-8,553
Revaluations	-559	4,327
Changes in current-account balances	86	4,538
Exchange rate differences	5	256
Interest in investment pools - closing balance	**234,142**	**130,905**

The 'Investments in investment pools' of EUR 103,7 million during 2016 mainly relate to investments in a green bond fund and a multi-asset factor opportunities fund. The remainder of the investments of EUR 234,1 million as per the balance sheet date relates to investments in an emerging markets loan fund and former investments that were for risk of policy holders.

Notes to the Parent company annual accounts
Continued

6 Receivables from other loans

Changes in Receivables from other loans

	2016	2015
Receivables from other loans - opening balance	6,883,071	8,272,765
Investments	1,343,698	1,886,493
Disposals	-445,869	-270,369
Redemptions	-1,495,327	-3,008,606
Transfer from/to other assets	-424	
Amortisation	26,414	2,912
Realised result	5,027	-124
Other changes	-4,196	
Receivables from other loans – before Provision for doubtful debts	**6,312,394**	**6,883,071**
Provision for doubtful debts	-11,286	-14,305
Receivables from other loans - closing balance	**6,301,108**	**6,868,766**

Changes in Provision for doubtful debts

	2016	2015
Provision for doubtful debts - opening balance	14,305	12,385
Allocation	1,343	
Withdrawal	-4,362	1,920
Provision for doubtful debts - closing balance	**11,286**	**14,305**

The fair value of the receivables from other loans (including mortgages and deposits with credit institutions) amount to EUR 20,704 million (2015: EUR 20,590 million).

7 Deposits with credit institutions

Changes in Deposits with credit institutions

	2016	2015
Deposits with credit institutions - opening balance	210,370	200,543
Investments	7,043	11,089
Disposals	-353	-1,262
Deposits with credit institutions - closing balance	**217,060**	**210,370**

8 Derivatives

Changes in Derivatives

	2016	2015
Derivatives - opening balance	3,057,161	5,356,174
Disposals	-1,213,011	-858,841
Revaluations	1,186,519	-1,440,172
Derivatives – closing balance	**3,030,669**	**3,057,161**
Breakdown of balance sheet value		
Cost	130,054	110,858
Cumulative revaluations	2,900,615	2,946,303
Derivatives	**3,030,669**	**3,057,161**

9 Investments for risk of policyholders

Changes in Investments for risk of policyholders

	2016	2015
Investments for risk of policyholders - opening balance	18,012,435	20,886,085
Investments	1,689,111	2,437,960
Disposals	-6,016,185	-5,820,585
Revaluations	605,944	-2,124,081
Realised result	366,531	2,856,695
Exchange rate differences	-10	11,670
Other changes	343,945	-235,309
Investments for risk of policyholders - closing balance	**15,001,771**	**18,012,435**

10 Other receivables

Other receivables

	2016	2015
Receivables and trade accounts receivable	281,295	86,224
Current-account balance with related parties	661,018	118,119
Other receivables – before Provision for doubtful debts	**942,313**	**204,343**
Provision for doubtful debts	-416	-77
Other receivables	**941,897**	**204,266**

Changes in Provision for doubtful debts

	2016	2015
Provision for doubtful debts - opening balance	77	736
Additions	339	
Withdrawal		-200
Release		-459
Provision for doubtful debts - closing balance	**416**	**77**

Under ´Receivables and trade accounts receivable´ is an amount of EUR 63 million (2015: 49 million) non-current.

The current account with related parties includes EUR 661 million (2015: EUR 112 million) relating to parent companies. 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.

For further information regarding transactions with related parties reference is made to note 40 'Related parties' in the Consolidated annual accounts.

11 Cash and cash equivalents

Cash and cash equivalents

	2016	2015
Bank balances	43,086	19,756
Deposits	22,044	3,633
Cash resources	2	7
Cash and cash equivalents	**65,132**	**23,396**

Notes to the Parent company annual accounts
Continued

12 Accrued interest

Accrued interest

	2016	2015
Bonds and other fixed-income securities	772,717	759,990
Derivatives	99,219	132,976
Receivables from mortgages	37,591	38,034
Receivables from other loans	40,760	41,270
Accrued interest	**950,287**	**972,270**

13 Equity

Equity

	2016	2015
Share capital	22,689	22,689
Share premium	3,228,030	3,228,030
Legal reserves	1,055,041	921,940
Revaluation reserve	8,436,876	6,726,927
Other reserves	2,164,417	1,861,931
Unappropriated profit	987,465	1,069,827
Shareholder´s equity	**15,894,518**	**13,831,344**
Undated subordinated loan	450,000	450,000
Total equity	**16,344,518**	**14,281,344**

Share capital

	Shares (in number)		Ordinary shares (amount)	
	2016	2015	2016	2015
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**

Changes in Share premium

	2016	2015
Share premium - opening balance	3,228,030	3,703,030
Capital repayment / dividend		-475,000
Share premium - closing balance	**3,228,030**	**3,228,030**

For details on changes in share capital and share premium, reference is made to Note 11 'Equity' in the Consolidated annual accounts.

Legal reserves

	2016	2015
Intangible assets reserve	9,078	9,358
Associates reserve	1,045,963	912,582
Legal reserves	**1,055,041**	**921,940**

Changes in Intangible assets reserve

	2016	2015
Intangible assets reserve - opening balance	9,358	6,741
Capitalised costs	1,300	2,944
Amortisation	-1,476	-327
Other changes	-104	
Intangible assets reserve - closing balance	**9,078**	**9,358**

Notes to the Parent company annual accounts
Continued

Changes in Associates reserve

	2016	2015
Associates reserve - opening balance	912,582	762,496
Revaluations	-8,384	25733
Result for the financial year	466,140	499,385
Dividend received / paid	-324,375	-361,212
Changes in the composition of the group		-13,820
Associates reserve - closing balance	**1,045,963**	**912,582**

Revaluation reserve

	2016	2015
Bond revaluation reserve	3,024,010	1,791,144
Share revaluation reserve	1,041,867	978,092
Hedge reserve	4,370,999	3,957,691
Revaluation reserve	**8,436,876**	**6,726,927**

Changes in Bond revaluation reserve

	2016	2015
Bond revaluation reserve - opening balance	1,791,144	2,323,997
Changes on account of deferred profit sharing liability	-934,891	-1,444,015
Revaluations	2,548,815	725,493
Amortisation of ABS bond revaluation	31,369	9,371
Deferred tax changes over the financial year	-412,426	176,125
Exchange rate differences	-1	173
Bond revaluation reserve - closing balance	**3,024,010**	**1,791,144**

Changes in Share revaluation reserve

	2016	2015
Share revaluation reserve - opening balance	978,092	704,438
Revaluations	89,376	256,377
Deferred tax changes over the financial year	-13,747	5,991
Exchange rate differences	-11,854	11,286
Share revaluation reserve - closing balance	**1,041,867**	**978,092**

Changes in Hedge reserve

	2016	2015
Hedge reserve - opening balance	3,957,691	4,384,514
Revaluations	551,077	-569,097
Deferred tax changes over the financial year	-137,769	142,274
Hedge reserve - closing balance	**4,370,999**	**3,957,691**

Changes in Other reserves

	2016	2015
Other reserves - opening balance	1,861,931	2,043,502
Transfer of unappropriated profit from previous financial year	1,069,827	255,607
Dividend from associates	324,375	361,212
Change in deferred taxes	1,228	6,635
Withdrawal from legal reserves	-466,140	-499,385
Dividend paid	-615,255	-305,255
Exchange rate differences	9	699
Other changes	-11,558	-1,084
Other reserves - closing balance	**2,164,417**	**1,861,931**

Unappropriated result
The unappropriated result consists entirely of the result after tax for the financial year.

Notes to the Parent company annual accounts
Continued

Distributable reserves

NN Leven is subject to legal restrictions regarding the amount of dividends it can pay to its shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholder's equity less the issued and outstanding capital and less the reserves required by law. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts. The paid up share capital, revaluation reserves and statutory reserves cannot be used for dividend payments to the shareholders. Apart from these restrictions, the possibility to pay out dividends is also restricted by the laws and regulations governing prudential insurance supervision.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Leven and its associates and joint ventures are as follows:

Distributable reserves based on Dutch Civil Code

	2016		2015	
Total Shareholder's equity		15,894,218		13,831,344
Share capital	-22,689		-22,689	
– revaluation reserve for bonds	-3,024,010		-1,791,144	
– revaluation reserve for shares	-1,041,867		-978,092	
– revaluation reserve for hedge (net)	-4,370,999		-3,957,691	
Legal reserves	-1,055,041		-921,940	
Total capital subject to claims on account of capital protection		**-9,514,606**		**-7,671,556**
Distributable reserves based on Dutch Civil Code		**6,379,612**		**6,159,788**

Freely distributable capital

	2016		2015	
Solvency requirement under the Financial Supervision Act	3,771,000		3,501,000	
Capital available for financial supervision purposes[1]	7,645,000		7,565,000	
Total freely distributable capital on the basis of the Financial Supervision Act		3,874,000		4,064,000
Total freely distributable capital on the basis of the Civil Code		6,379,612		6,159,788
Total freely distributable capital (lowest of the above values)		**3,874,000**		**4,064,000**

1 Reference is made to Note 44 'Capital management', for the calculation of the capital available for financial supervision purposes

Internal solvency objectives

During 2016 the commercial target capital was 130% Solvency II required capital.

14 Technical provisions

Technical provisions

	Provision net of reinsurance		Reinsurance contracts		Technical provisions	
	2016	2015	2016	2015	2016	2015
Technical provisions for life insurance net of interest and rebates	46,392,362	44,786,405	572,767	599,823	46,965,129	45,386,228
Unamortised acquisition costs	-228,497	-247,441	-10,126	-10,505	-238,623	-257,946
Unamortised interest rebates	86,090	61,171		22	86,090	61,194
Technical provisions for life insurance[1]	**46,249,955**	**44,600,135**	**562,641**	**589,340**	**46,812,596**	**45,189,476**
Technical provisions for (deferred) profit sharing and rebates	11,714,218	10,616,964	102,322	111,272	11,816,540	10,728,236
Other technical provisions	234,695	228,871			234,695	228,871
Provision for investment contracts	-15,730	-33,572	15,730	33,572		0
Technical provisions for life insurance for risk of policyholders[2]	13,175,289	15,521,473	477,260	458,400	13,652,549	15,979,873
Technical provisions	**71,358,427**	**70,933,871**	**1,157,953**	**1,192,584**	**72,516,380**	**72,126,456**

1 To reconcile the 'Technical provisions' for life insurance EUR 46,813 million (2015: EUR 45,189 million) with the financial statements EUR 47,051 million (2015: EUR 45,447 million) the acquisition costs EUR 239 million (2015: EUR 258 million) have to be added
2 To reconcile the 'Technical provisions' for life insurance for risk of policyholders EUR 13,653 million (2015: EUR 15,980 million) with the financial statements EUR 13,657 million (2015: EUR 15,987 million) the acquisition costs EUR 4 million (2015: EUR 7 million) have to be added

Notes to the Parent company annual accounts
Continued

Changes in Technical provisions for life insurance for risk of policyholders

	2016	2015
Technical provisions for life insurance for risk of policyholders - opening balance	15,986,504	17,508,707
Current year provisions	523,494	613,544
Prior year provisions:		
– benefit payments to policyholders	-1,769,818	-1,769,010
– valuation changes for risk of policyholders	997,302	1,699,346
Exchange rate differences	112	10,637
Other changes[1]	-2,080,187	-2,076,720
Technical provisions for life insurance for risk of policyholders - closing balance	**13,657,407**	**15,986,504**

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

Changes in Unamortised interest rate rebates net of reinsurance

	2016	2015
Unamortised interest rate rebates net of reinsurance - opening balance	-61,171	-7,482
Change during the financial year	-32,838	-49,803
Amortisation of interest rate rebate granted in the financial year	3,813	-9,440
Amortisation of interest rate rebates capitalised in previous financial years	4,113	5,567
Exchange rate differences	-7	-13
Unamortised interest rate rebates net of reinsurance - closing balance	**-86,090**	**-61,171**

Changes in Other technical provisions

	2016	2015
Other technical provisions - opening balance	228,871	252,073
Allocation	5,824	291
Withdrawal	0	-23,493
Other technical provisions - closing balance	**234,695**	**228,871**

Changes in Technical provisions for profit sharing and rebates

	2016	2015
Technical provisions for profit sharing and rebates - opening balance	10,728,236	12,018,268
Valuation changes for risk of policyholders	-1,067,356	1,184,387
Allocation of share in unrealised revaluations	934,891	-725,493
Paid up additions	-84,902	-48,583
Interest accrual prior year provisions	880,013	759,216
Allocation of share in surplus interest	379,352	-2,528,247
Addition/withdrawal through profit and loss account	52,118	66,625
Exchange rate differences	-9	2,971
Other changes	-5,803	-908
Technical provisions for profit sharing and rebates - closing balance	**11,816,540**	**10,728,236**

15 Derivatives

Changes in Derivatives

	2016	2015
Derivatives - opening balance	535,901	1,599,857
Disposals	-137,295	-255,114
Revaluations	346,055	-808,842
Derivatives – closing balance	**744,661**	**535,901**
Breakdown of balance sheet value		
- cost	1,025	2,905
- cumulative revaluation	743,636	532,996
Derivatives	**744,661**	**535,901**

Notes to the Parent company annual accounts
Continued

16 Deferred tax liabilities

Changes in Deferred tax liabilities (2016)

	Net liability 2015	Change through equity	Change through Net result	Exchange rate differences and other changes	Net liability 2016
Investments	1,996,698	655,289	-407		2,651,580
Financial assets and liabilities at fair value through profit or loss	1,319,086	137,769			1,456,855
Deferred acquisition costs	51,557		1,719		53,276
Technical provisions	-1,745,878	-235,745	26,771		-1,954,852
Other	26,372	-10	4,359	-115	30,606
Deferred tax liabilities	**1,647,835**	**557,303**	**32,442**	**-115**	**2,237,465**
Comprising:					
– deferred tax liabilities	3,393,713				4,192,317
– deferred tax assets	-1,745,878				-1,954,852
Deferred tax liabilities	**1,647,835**				**2,237,465**

Changes in Deferred tax liabilities (2015)

	Net liability 2014	Change through equity	Change through Net result	Exchange rate differences and other changes	Net liability 2015
Investments	2,362,167	-359,264	1,321	-7,526	1,996,698
Financial assets and liabilities at fair value through profit or loss	1,461,360	-142,274			1,319,086
Deferred acquisition costs	48,317		3,240		51,557
Technical provisions	-1,969,867	177,404	46,585		-1,745,878
Other	-5,719	306	32,495	-710	26,372
Deferred tax liabilities	**1,896,258**	**-323,828**	**83,641**	**-8,236**	**1,647,835**
Comprising:					
– deferred tax liabilities	3,871,844				3,393,713
– deferred tax assets	-1,975,586				-1,745,878
Deferred tax liabilities	**1,896,258**				**1,647,835**

17 Other provisions

Other provisions

	2016	2015
Provision for investment contracts	693,975	747,451
Restructuring provisions	13,377	9,055
Other	9,242	7,883
Other provisions	**716,594**	**764,389**

18 Other bonds and private loans

Changes in Other bonds and private loans

	2016	2015
Other bonds and private loans - opening balance	2,034,972	739,104
Investments	2,050,000	2,000,021
Disposals	-2,128,251	-704,153
Other bonds and private loans - closing balance	**1,956,721**	**2,034,972**

Specification of other bonds and private loans

	2016	2015
Loans from related companies[1]	250,000	1,508,595
Other loans		13,801
Other	1,706,721	512,576
Other bonds and private loans	**1,956,721**	**2,034,972**

1 The average interest rate on 'Loans from related companies' is -0,320% (2015: -0.108%)

19 Other liabilities

Other liabilities

	2016	2015
Current-account balance with related companies	9,257	7,482
Taxation and social security contributions	43,889	47,274
Securities accounts payable	28,816	22,777
Other	26,757	22,967
Other Liabilities	**108,719**	**100,500**

Current-account balance with related companies

	2016	2015
Parent companies		
Other group companies	9,257	7,482
Current-account balance with related companies	**9,257**	**7,482**

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.

For further information regarding transactions with related parties reference is made to Note 40 'Related parties' in the Consolidated annual accounts.

20 Accrued liabilities

Accrued liabilities

	2016	2015
Costs payable	-3,714	7,723
Interest payable	66,879	69,473
Accrued liabilities	**63,165**	**77,196**

Notes to the Parent company annual accounts
Continued

21 Investment income

Investment income

	2016	2015
Investment income	2,638,471	2,694,849
Realised gains on investments	248,771	256,480
Unrealised gains on investments	1,146,116	970,094
Investment expenses: impairments of investments	-62,652	-95,790
Investment expenses: realised losses on investments		-301,755
Unrealised losses on investments	-28,633	
Investment Income	**3,942,073**	**3,523,878**

Investment income by category (2016)

2016	Investment income	Unrealised revaluations	Realised revaluations	Impairments	Total
Shares, units of participation and other variable-income securities	144,643		79,707	-62,652	161,698
Derivatives	199,256	203,818			403,074
Interests in investment pools		-559			-559
Investments in other associates	2,307		913		3,220
Investments in group companies	462,921				462,921
Investment for risk of policyholders	20,809	942,298			963,107
Deposits with credit institutions	14				14
Cash and cash equivalents	-40	-1,026			-1,066
Bonds issued by and receivables from group companies	12,484				12,484
Bonds and other fixed-income securities	1,112,184	-27,048	166,131		1,251,267
Other results from investments	36,338		2,020		38,358
Receivables from other loans	166,699				166,699
Receivables from mortgages	480,856				480,856
Total	**2,638,471**	**1,117,483**	**248,771**	**-62,652**	**3,942,073**

Investment income by category (2015)

2015	Investment income	Unrealised revaluations	Realised revaluations	Impairments	Total
Shares, units of participation and other variable-income securities	132,466		214,465	-95,790	251,141
Derivatives	222,883	239,519	-301,755		160,647
Interests in investment pools		4,322			4,322
Investments in other associates	9,410				9,410
Investments in group companies	565,730		-75,755		489,975
Investment for risk of policyholders	6,306	646,251			652,557
Deposits with credit institutions	10,233				10,233
Cash and cash equivalents	-25	2,516			2,491
Bonds issued by and receivables from group companies	31,099				31,099
Bonds and other fixed-income securities	1,087,029	77,486	113,198		1,277,713
Other results from investments	74,757				74,757
Receivables from other loans	132,534		4,572		137,106
Receivables from mortgages	422,427				422,427
Total	**2,694,849**	**970,094**	**-45,275**	**-95,790**	**3,523,878**

Commission

The paid and unpaid fees for settling insurance contracts for the year 2016 amounts to EUR 39 million (2015: EUR 38 million).

22 Other net technical income

Other net technical income

	2016	2015
Income from portfolio transfer	165	938
Change in the value of investment units for account and risk of policyholders	337,151	590,017
Other	10,993	17,555
Other net technical income	**348,309**	**608,510**

Notes to the Parent company annual accounts
Continued

23 Change in technical provision for life insurance

Changes in Technical provisions for life insurance

2016	Gross	Reinsurance	Net of reinsurance
Technical provisions for life insurance	-1,701,973	5	-1,701,968
Other technical provisions	-5,824		-5,824
Total	**-1,707,797**	**5**	**-1,707,792**

2015	Gross	Reinsurance	Net of reinsurance
Technical provisions for life insurance	-927,790	988	-926,802
Other technical provisions	-23,202		-23,202
Total	**-950,992**	**988**	**-950,004**

Forms of result sharing

	2016	2015
Contractual result sharing	1,603,363	1,203,253
Interest rate rebates	-30,972	-48,079
Result sharing dependent on operating results	51,093	66,406
Result sharing	**1,623,484**	**1,221,580**

24 Management and staff expenses, equipment depreciation

Management and staff expenses, equipment depreciation

	2016	2015
Management expenses	169,178	190,256
Depreciation and amortisation	1,507	389
Staff expenses	250,095	239,944
Recharged to other business units	-10,553	-10,328
Management and staff expenses and equipment and depreciation	**410,227**	**420,261**

For information regarding the average numbers of employees NN Leven reference is made to Note 23 'Staff expenses' in the Consolidated annual accounts.

25 Management expenses and interest expenses

Management expenses and interest expenses

	2016	2015
Management expenses	81,865	91,686
Interest expenses	40,509	47,804
Management expenses and interest expenses	**122,374**	**139,490**

26 Other net technical expenses

Other net technical expenses

	2016	2015
Portfolio transfer expenses	570,415	309,920
Other	19,873	23,519
Other net technical expenses	**590,288**	**333,439**

27 Taxes

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.

Taxes by category

	2016	2015
Current taxes	114,048	14,973
Deferred taxes	32,442	83,538
Taxes	**146,490**	**98,511**

Reconciliation of the statutory and effective tax rates

	2016	2015
Result before tax	1,133,955	1,168,338
Associates exemption	-544,716	-779,212
Adjustments to prior periods	-2,695	3,081
Other income not subject to tax	4,871	1,835
Total taxable amount	**591,415**	**394,042**
Effective tax amount	**146,490**	**98,511**
Effective tax rate	12.9%	8.4%
Nominal tax amount	**283,489**	**292,085**
Nominal tax rate	25.0%	25.0%

28 Other

Assets not freely disposable

For further explanation of the assets that are not freely disposal reference is made to Note 33 'Assets not freely disposable' in the Consolidated annual accounts.

Contingent liabilities and commitments

For further explanation of the Contingent liabilities and commitments reference is made to Note 36 'Contingent liabilities and commitments' in the Consolidated annual accounts.

Related parties

For further explanation of the related parties reference is made to Note 40 'Related parties' in the Consolidated annual accounts.

29 Subsequent events

For subsequent events of NN Leven reference is made to Note 42 'Other events' in the Consolidated annual accounts.

Notes to the Parent company annual accounts
Continued

Analysis of the result of the NN Leven portfolio

Profit sources 2016

2016	Policies Individual and Group insurance contracts	Total
Investment income allocated to insurance contracts	3,143,414	3,143,414
Less: Interest credited to technical provisions	1,813,259	1,813,259
Profit or loss on interest	**1,346,871**	**1,346,871**
Release of expenses from premiums and technical provisions	293,195	293,195
Operating expenses	440,221	440,221
Profit or loss on expenses	**-147,026**	**-147,026**
Profit or loss on probability rate systems	78,281	78,281
Profit or loss on technical analysis	**78,281**	**78,281**
Total profit or loss on assumptions	**1,261,410**	**1,261,410**
Profit sharing:		
Contractual	600,805	600,805
Dependent on operating profits	48,340	48,340
Amortisation of interest rate rebate	-5,484	-5,484
Total amount made available for profit sharing	**643,661**	**643,661**
Profit or loss on assumptions after profit sharing	**617,749**	**617,749**
Movement in other technical provisions, net of reinsurance	**21,891**	**21,891**
Net other technical income/charges		
Balance on the technical account	**595,858**	**595,858**

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Leven for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Management Board on 30 March 2017. The Management Board may decide to amend the Parent company annual accounts as long as these are not adopted by the General Meeting.

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

Rotterdam, 30 March 2017

The Management Board
M.F.M. (Michel) van Elk, CEO and chair

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

A.J. (Arthur) van der Wal

T. (Tjeerd) Bosklopper

The Supervisory Board
D.E. (Dorothee) van Vredenburch, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

D.E. (David) Knibbe

Confirmed and adopted by the General Meeting, dated 7 June 2017

Independent auditor's report

KPMG

Independent auditor's report

To: the Shareholder and the Supervisory Board of Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Report on the audit of the 2016 annual accounts

Our opinion

In our opinion:

- the accompanying consolidated annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Levensverzekering Maatschappij N.V. ("NN Leven") as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of NN Leven as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the annual accounts 2016 of NN Leven, based in Rotterdam as set out on pages 10 to 113. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1. the consolidated balance sheet as at 31 December 2016;
2. the following consolidated statements for 2016: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1. the parent company balance sheet as at 31 December 2016;
2. the parent company profit and loss account for 2016;
3. the parent company statement of changes in equity; and
4. 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, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

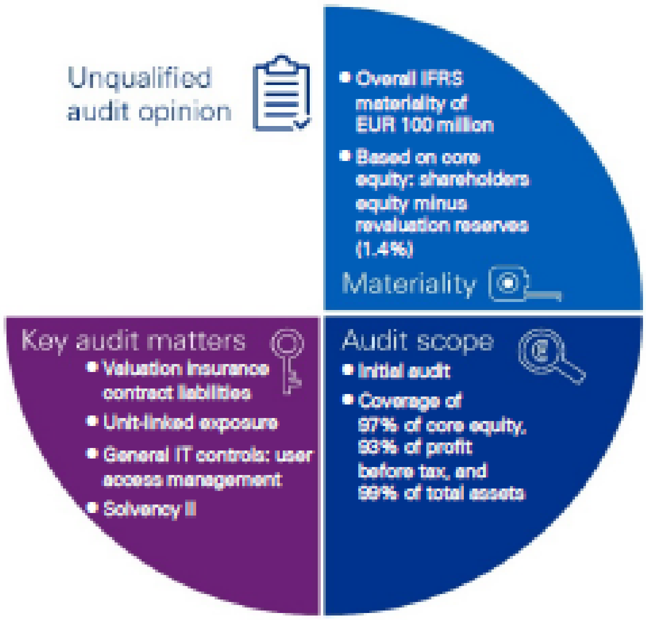
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report
Continued

KPMG

Audit approach

Summary



Initial audit

The year 2016 was the first year we have audited the annual accounts of NN Leven as part of the audit engagement for the NN Group N.V. ("NN Group"). Therefore we provide more information on how we prepared for the initial audit.

Before commencing our audit work in October 2015, KPMG member firms, their partners and staff ensured that we were independent of NN Group. This involved ceasing commercial relationships and changing financial arrangements for all our partners and for staff who work on the audit of NN Group.

From October 2015 and throughout the 2015 year-end process, we worked alongside the former auditors, attending their key meetings with NN Leven and NN Group and understanding the complex or significant audit judgements which they made. Members of the audit team met with the key senior executives to understand the issues faced by the business, and to gather information which we required to plan our audit. During this phase we also reviewed key accounting papers and the 2015 annual accounts to ensure we agreed on the key accounting policies. We also attended the Audit Committee and Risk Committee meetings of NN Group.

We also reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, and to understand the evidence they obtained over key judgements. We also obtained sufficient audit evidence over the opening balances of the 2016 accounts.

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 100 million. The materiality is determined with reference to core equity (shareholders equity minus the revaluation reserves) and amounts to 1.4% of core equity. We consider core equity as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of a life insurance company. We believe that core equity is a relevant metric for assessment of the financial performance of NN Leven. We have also taken into account

Independent auditor's report
Continued

misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Supervisory Board that misstatements in excess of EUR 5 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 a wholly owned subsidiary of NN Group and is by itself a group company of several subsidiaries, which are related to asset management activities (as set out in Note 38). The financial information of the subsidiaries is included in the consolidated annual accounts of NN Leven. Furthermore the activities of the Czech branch of NN Leven are included in the parent company and consolidated annual accounts of NN Leven.

Because we are ultimately responsible for the audit opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the subsidiaries. This resulted in a coverage of 97% of core equity, 93% of profit before tax and 99% of total assets. For the remaining subsidiaries, we performed analytical procedures at the aggregated group level in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining subsidiaries.

All subsidiaries in scope for group reporting are audited by KPMG member firms. Based on the group audit instructions, the auditors cover significant areas including the relevant risks of material misstatement and they report the information required for the group audit team. We discussed the audit work performed with the different audit teams and performed file reviews.

The audit of some disclosures in the annual accounts and certain accounting topics have been performed with assistance of the NN Group audit team. The accounting matters on which audit procedures are performed with assistance of the NN Group audit team include, but are not limited to group financing, personnel and other administrative expenses in The Netherlands, certain elements of the Solvency II calculations (SCR), corporate income tax for the Dutch fiscal unity and claims and litigation.

By performing the procedures mentioned above, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the annual accounts.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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

Valuation insurance contract liabilities
Description NN Leven has insurance contract liabilities of EUR 73 billion representing 90% of its total liabilities. The valuation of the insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the Reserve Adequacy Test (RAT). The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of the expected future cash flows. The RAT in respect of the individual and group pension business requires the application of significant management judgement in the setting of the longevity, expense and reinvestment rate assumptions.

Independent auditor's report
Continued

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Valuation insurance contract liabilities
Given the financial significance and the level of judgement required, we considered this to be a key audit matter.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining insurance contract liabilities and the RAT as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the adequacy of policyholder data, recognition and amortisation of deferred acquisition costs, the governance and controls around assumption setting and the review procedures performed on the RAT by the actuaries of NN Leven. In our audit we also considered the process around the internal validation and implementation of the models used to determine the insurance contract liabilities and the RAT.

With the assistance of our actuarial specialists we performed the following substantive audit procedures:

- Assessing the appropriateness of assumptions used in the valuation of the individual life and pension contracts by reference to company and industry data and expectations of investment returns, future longevity and expense developments.
- Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT.
- Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the Actuarial Function Holder in that regard.
- Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate at the 90th percentile confidence level, including challenge on the appropriateness of the methodology applied to substantiate that conclusion.

NN Leven reports a change in accounting policy relating to the RAT, applicable as from 1 January 2017. We assessed the supporting documentation for the proposed change in accounting policy.

Our observation

Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, in an appropriate manner. We also found the related RAT disclosure to be adequate. Refer to Note 14 of the annual accounts.

We draw attention to the fact that the unrealised revaluations on available for sale investments backing the insurance contact liabilities are recorded in shareholders equity and show a significant increase in 2016 as a result of decreased interest rates. To the extent that available for sale investments are being sold, the realized gains will decrease the reserve adequacy margin. In other words: if these unrealised revaluations were to be fully realised, the capital gains would only be partly available to the shareholder, since a portion of the gains would be required to strengthen the insurance reserves in order to remain adequate at the 90th confidence level.

We evaluated the disclosure of the change in accounting policy relating to the RAT applicable as from 1 January 2017 onwards and found the disclosure to be adequate.

Unit-linked exposure

Description

Holders of unit-linked products sold in The Netherlands, or consumer protection organisations on their behalf, have filed claims or initiated legal proceedings against NN Group and/or NN Leven and may continue to do so. A negative outcome of such claims and proceedings, settlements or any other actions to the benefit of the customers by other insurers or sector-wide measures, may affect the (legal) position of NN Leven and could result in substantial financial losses relating to the compensation. Management assessed the financial consequences of these legal proceedings under both the EU-IFRS and the Solvency II reporting framework and

Independent auditor's report
Continued

KPMG

Unit-linked exposure
concluded that these cannot be reliably estimated or quantified at this point. Refer to Note 37 of the annual accounts. Due to the potential significance and management judgement that is required to assess the developing fact pattern, we consider this a key audit matter.
Our response Our audit procedures primarily consisted of the following: - An assessment the governance, processes and internal controls with respect to the unit-linked exposures within NN Leven. - An inspection of the documentation and a discussion about the unit-linked exposures with management and its internal and external legal advisors. These procedures took into account the NN Group specific developments as well as broader market developments in 2016. - A detailed consideration of the recognition and measurement requirements to establish provisions under NN Leven's EU-IFRS accounting principles and the Solvency II framework for the calculation of the Solvency II ratio. - An evaluation of the unit-linked disclosure in Note 37 Legal proceedings of the annual accounts, where we focused on adequacy of the disclosure of the related risks and management's judgements.
Our observation Overall we found that management's assessment that the financial consequences of the unit-linked exposure cannot be reliably measured and therefore no provision is recognised in the 31 December 2016 balance sheet, is sufficiently substantiated. This also applies to the Solvency II calculations made by management at the end of 2016. The disclosure of the exposure in Note 37 describes the related risks and management judgements in compliance with the relevant accounting requirements.

General IT controls: user access management
Description NN Leven is highly dependent on its IT-infrastructure for the reliability and continuity of its operations and financial reporting. In 2016 NN Group and NN Leven made significant efforts to improve IT systems and processes to increase the reliability and continuity of the IT processing. In particular there was increased management attention on information security. This is important to ensure that access and changes to applications and data are properly authorised and made in an appropriate manner. We have therefore identified the effectiveness of user access management as part of the general IT controls a key audit matter.
Our response Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access controls over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists in all stages of the annual accounts audit (risk assessment, planning, execution and reporting). Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2016 annual accounts. We assessed and tested the design and operating effectiveness of the controls over the integrity of the IT systems relevant for financial reporting. We examined the framework of governance over the IT organisation and the IT general controls, access to programs and data, program changes and IT operations, including compensating

Independent auditor's report
Continued

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General IT controls: user access management

controls where those were required. We also examined the NN Group's response to cyber risk in relation to highly critical infrastructure for financial reporting.

Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. In our evaluation of IT related findings, we considered the impact on the risk of error as well as the risk of fraud taking into account the compensating controls and additional analyses performed by management.

A particular area of focus related to the logical access management and segregation of duties controls. Access rights were tested to the extent relied upon for financial reporting and this resulted in the identification of a number of control weaknesses. As a consequence we have performed additional test work over management's remediation of user access controls. For those control weaknesses that were not remediated, we tested compensating controls that were not impacted by ineffective user access management controls. For certain applications we substantively assessed the access to determine whether inappropriate access occurred and whether changes made were appropriate.

To the extent required for the audit of the annual accounts, we also applied forensic data analytical procedures with regard to the payments factory in The Netherlands to mitigate the risk of fraud associated with the observed ineffective internal controls.

Finally we performed additional audit procedures to test the effectiveness of management's response to identified IT security breaches to satisfy ourselves this was appropriate in the context of the audit of the annual accounts.

Our observation

The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

Solvency II

Description

As disclosed in the risk management and capital and liquidity management section of the annual accounts, the new Solvency II directive that came into force on 1 January 2016 has a significant impact on NN Leven. We refer to Notes 43 and 44.

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

NN Leven uses the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II. Disclosure of the determination of the metrics, applied assumptions and sensitivity (use of the Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this new legislation for NN Leven and complexity of the application and estimates to determine the Solvency II capital requirements, we determined the adequacy of the Solvency II Capital Requirement disclosure to be a key audit matter.

Our response

We obtained an understanding of the company's application and implementation of the new Solvency II directive and designed our audit procedures taking into account the NBA practice guidance in Audit Alert 40. As prescribed by this technical guidance, we have set a separate

Independent auditor's report
Continued

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Solvency II
materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 100 million, which equals the materiality level we use in the audit of the IFRS financial information. We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM by the Dutch regulator, DNB) and management review controls. These internal controls covered, amongst other: - whether the calculations of the market value balance sheet, Own Funds and SCR were accurate and prepared in accordance with the Solvency II directive and in accordance with the PIM approved by DNB. - the appropriateness of assumptions used for the calculations of Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice. - the adequacy of the quantitative and qualitative disclosures of the Solvency II capital requirements including disclosure on interpretation of legislation and related uncertainty. - the functioning of the Solvency II key functions on risk management and actuarial function. - the reporting of the Own Risk Self-Assessment (ORSA) to the Group's Management and Supervisory Board, and then to DNB. Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others the following substantive procedures: - Verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial specialists and alternative actuarial methods, if applicable. - Assessing the appropriateness of evidence used and judgement applied in assumption setting by NN Leven for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the NN Leven recoverability test. - Verifying that the PIM as approved by DNB was applied in the Solvency Capital calculations. - Analysing the outcome of the internally prepared calculations and analysis of the movements in the Solvency II capital position during the year and sensitivities as at 31 December 2016 and discussing the outcome with the company's actuaries and Actuarial Function Holder. - Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II, such as ORSA. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts. - Verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB.
Our observation Based on the work performed we found that the disclosure on the Solvency II capital requirement sufficiently reflects the requirements of the Solvency II regulatory framework.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information that consists of:

- the Report of the Management Board; and
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below procedures performed, we conclude that the other information:

- is consistent with the annual accounts and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

KPMG

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Auditing Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

Management is responsible for the preparation of the other information, including the Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

On 30 June 2015 the Annual General Meeting of Shareholders of NN Leven appointed us as the auditor of NN Leven for the financial years 2016 through 2019.

Description of the responsibilities for 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 the annual accounts in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of annual accounts

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in 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.

For a further description of our responsibilities in respect of an audit of annual accounts we refer to the website of the professional body for accountants in the Netherlands (NBA):
https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 30 March 2017

KPMG Accountants N.V.

W. Teeuwissen RA

Appropriation of result

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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 having heard the advice of the Management Board and the Supervisory Board. It is proposed to add the 2016 net result of EUR 987 million minus the cash dividends (paid from the result current year) to the 'Retained earnings'.

Dividend 2016

In 2016, NN Leven paid a 2016 interim cash distribution of EUR 600 million from 'Other reserves' to its shareholder NN Nederland.

Coupon payments undated subordinated notes

In 2016, Coupon payments on the undated subordinated notes of EUR 15 million have been distributed out of 'Other reserves'.

Guidelines profit sharing for policies with a participation feature

The guidelines with the details, in Dutch, with regard to profit-sharing for policies with a participation feature can be found at www.nn.nl/winstdelingsrichtlijn. Below is some information on the merger of the NN Leven and RVS Leven portfolios as well as the merger of the NN Leven and NN Services portfolios.

Legal merger of NN Leven and RVS Leven

On 28 December 2011 NN Leven merged with RVS Leven. This merger 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 for policies with a participation feature, 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 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 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

Legal merger of NN Leven and NN Services

On 31 December 2015, NN Leven merged with NN Services. This merger has not led to any changes in the existing contractual rights and obligations of policyholders. The profit sharing for policies with a participation feature within NN Leven was not affected by this merger either. The aforementioned guidelines with regard to profit sharing for policies with a participation feature are not applicable to the pre-merger NN Services portfolio. Policies within this portfolio do not have such a participation feature.

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Disclaimer

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Any forward-looking statements made by or on behalf of NN Leven in this Annual Report 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.