2017 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 2017 was as follows:

Management Board
Composition as at 31 December 2017

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

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

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

T. (Tjeerd) Bosklopper (1975)[1]

A.G. (Annemieke) Visser-Brons (1970)[2]

D. (Diederik) Schouten (1974)[3]

Resigned in 2017

A.J. (Arthur) van der Wal (1972)[4]

Resigned in 2018

T. (Tjeerd) Bosklopper (1975)[1]

D. (Diederik) Schouten (1974)[3]

Appointed in 2018

R.F.M. (Robin) Buijs (1970)[5]

M.R. (Martijn) Hoogeweegen (1969)[5]

Supervisory Board
Composition as at 31 December 2017

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

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

J.H. (Jan-Hendrik) Erasmus (1980)

Resigned in 2017

D.E. (David) Knibbe (1971)[6]

1 Resignation as at 1 January 2018 by resignation letter.
2 Appointment as at 1 July 2017 at the General Meeting on 30 June 2017.
3 Appointment as at 1 July 2017 at the General Meeting on 30 June 2017. Resignation as at 1 January 2018 by resignation letter.
4 Resignation as at 1 July 2017 by resignation letter.
5 Appointment as at 1 January 2018 at the General Meeting on 18 December 2017.
6 Resignation as at 11 April 2017 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 a financial services company, active in 18 countries, with a strong presence in a number of European countries and Japan. Our ambition is to be a company that truly matters in the lives of our stakeholders. Our values are 'care, clear and commit'.

We are committed to helping people secure their financial futures, with strong products and services, and long-term relationships. With all our employees, NN Group offers retirement services, pensions, insurance, investments and banking products to approximately 17 million customers. NN Group's main brands are Nationale-Nederlanden, NN, Delta Lloyd, NN Investment Partners, ABN AMRO Insurance, Movir, AZL, BeFrank and OHRA.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. 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'). More information about NN Group's business model, values and performance is available on www.nn-group.com and in the NN Group Annual Report.

Acquisition of Delta Lloyd

NN Group and Delta Lloyd have joined forces in the Netherlands and Belgium. On 12 April 2017, they jointly announced that NN Group had acquired 79.9% of the Delta Lloyd shares: the acquisition was completed. NN Group and Delta Lloyd started the integration process. End of April 2017, NN Group held over 93% of the Delta Lloyd shares, and appointed senior management and functional leaders at the head office. On 1 June 2017, NN Group established a legal merger to effectively achieve full ownership of the Delta Lloyd group. From that date, Delta Lloyd N.V. was not a listed company anymore and ceased to exist. (Read more about the Delta Lloyd transaction in Note 44 'Companies and businesses acquired and divested' of the NN Group Financial Report).

The combination of the activities of NN Group and Delta Lloyd will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service.

Within NN Group's organisational structure, NN Leven is part of the reporting segment Netherlands Life. For Netherlands Life, the acquisition means that it will integrate the life and broker activities of Delta Lloyd in its current organisation and business units.

NN Leven

NN Leven offers a range of group life and individual life insurance products. Its group life policies are primarily group pension products. NN Leven has three business units: Pension New Business, Pension Services and Individual Life Services. 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 'care, clear, commit' set the standard for conduct and serve as a compass for decision making.

Legal structure NN Leven

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 Insurance Eurasia N.V. is fully owned by NN Group.

Report of the Management Board

Financial Developments

Analysis of results[1]

Amounts in millions of euros	2017	2016
Investment margin	797	786
Fees and premium-based revenues	309	292
Technical margin	102	93
Operating income	1,208	1,171
Administrative expenses	401	387
DAC amortisation and trail commissions	34	39
Expenses	435	426
Operating result	773	745
Non-operating items:	1,295	451
of which gains/losses and impairments	1,020	182
of which revaluations	289	279
of which market and other impacts	-14	-10
Special items before tax	-39	-14
Result before tax	2,029	1,182
Taxation	337	195
Net result	1,692	987

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	2017	2016
New sales life insurance (APE)	279	229
Value of new business (VNB)	2	9
Total administrative expenses	401	387
NN Leven Solvency II ratio[1]	217%	203%

1 The solvency ratios are not final until filed with the regulators. The Solvency II ratio is based on the Partial Internal Model.

The full-year 2017 operating result of NN Leven increased to EUR 773 million from EUR 745 million in the same period last year. The increase reflects a higher operating income and is partly offset by higher expenses. The investment margin for full-year 2017 includes private equity dividends and a dividend from an indirect stake in ING Life Korea for a total amount of EUR 93 million, whereas the same period last year included private equity dividends for a total amount of EUR 72 million. Furthermore, the move towards higher yielding assets and higher fees for interest rate guarantees and capital charges on defined benefits products helped to compensate the negative impacts from the continuing low interest rate environment. The technical margin for full-year 2017 increased compared to full-year 2016. The full-year 2017 technical margin includes a EUR 6 million release of the provision for unit-linked guarantees, compared to a EUR 22 million addition in 2016. This is partly offset by lower results on mortality and morbidity.

The result before tax for full-year 2017 increased to EUR 2,029 million compared with EUR 1,182 million in the same period last year, reflecting the higher operating result, higher gains on government bonds and equity, as well as higher revaluations of real estate investments. This was partly offset by lower revaluations on private equity, as well as less positive market and other impacts, reflecting movements in the provision on separate account pension contracts partly offset by a release of the provision for unit-linked guarantees.

New sales (APE) increased to EUR 279 million for the full-year 2017 from EUR 229 million in the same period last year mainly driven by higher sales of defined contribution pension contracts.

The value of new business (VNB) was EUR 2 million, compared with EUR 9 million last year. Impact of higher sales is offset by lower separate account contract renewals which contributed to the VNB in 2016.

The Solvency II ratio of NN Leven was 217% at the end of 2017 compared with 203% at the end of 2016.

Business developments

NN Leven continues to operate in a complex economic, business and regulatory environment. Low interest rates and increasing longevity over the past years 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.

As a result of the Delta Lloyd acquisition, the implications for the future end state of the legal structure of Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Leven) and Delta Lloyd Levensverzekering N.V. (Delta Lloyd Levensverzekering) were analysed. Goal of the future legal structure is to ensure the rights of policyholders whilst, optimizing financial impact and preventing complexity (in both the legal structure as the operation thereof).

Based on the first analyses the NN Leven Management Board has decided to keep NN Leven and Delta Lloyd Levensverzekering as two separate legal entities in 2018, and intends to merge them into one entity in 2019.

In the fourth quarter of 2017 NN Leven entered into a longevity hedge based on a general index of Dutch mortality. The maximum pay-out of the hedge amounts to EUR 100 million, payable after twenty years. The hedge is financed by annual premium payments to the counterparty. The longevity hedge is accounted for as derivative. The hedge reduces the impact of longevity trend scenarios implying more improvement in life expectancy. The regulator gave approval to include the effects of this specific hedge on the Solvency Capital Requirement (SCR). The purpose of the hedge is to reduce the longevity risk. The instrument builds NN Leven's Longevity management capabilities through practical experience with index based hedges. Future deals require separate regulatory approval.

Report of the Management Board Continued

Our strategy

In a fast changing market and society, we are building a company that truly matters to our stakeholders. We see that the Group Pension new business shows material shift to capital-light insured DC and PPI. The expected future pension reform will accelerate the shift to individual responsibility. Our role in this changing 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 strong base in this fast changing market gives us the opportunity to attract new business in the shifting pension market. With the Delta Lloyd acquisition NN Leven has an even stronger position in the Dutch Life and Pensions market. With a large in-force client base in Pensions and Individual life and an established product suite, NN Leven targets all segments. The NN / Delta Lloyd Levensverzekering entities combination is market leader in both PPI and Group Pensions DB and DC markets.

Our strategy is to deliver upon an excellent customer experience, while meeting our expense reduction ambition. We optimise our asset portfolio to improve risk return and capital generation.

As NN Leven we contribute to NN Groups' strategic priorities, these are disciplined capital allocation; innovate our business and industry; agile and cost efficient operating model; and value added products and services.

Disciplined capital allocation

NN Leven is committed to a disciplined capital process. NN Leven strives for predictability in dividend payments, whilst ensuring solvency ratios above the regulatory minimum.

In making business decisions regarding products, investments and hedges, the consequences on the capital ratio and stability play a crucial role. To support this, a Long Term Forecast (LTF) is produced providing insight in expected and possible capital effects of management decisions. Investment decisions are based on a Strategic Asset Allocation (SAA) that is based on the risk appetite and financial ambitions of NN Leven. The SAA leads to an investment plan, that is the basis for the investment projection in the LTF. Actual decisions on investing are not only based on the LTF, but also on prevailing market conditions.

The disciplined capital process includes the possibility to widen the scope of capital measures in the toolbox, such as the longevity swap that was entered in 2017.

The capital process takes place in continuous dialogue with the shareholder of NN Leven and the regulator, and is supported by the Own Risk & Solvency Assessment (ORSA), the Capital Policy and the Recovery Plan of NN Group. The capital process takes into account the dynamics of the regulatory requirements that are in place for the valuation of technical provisions and the requirements on capital.

A merger with Delta Lloyd Levensverzekering will not change the principles of the capital process. It will simplify the decision making process, and alleviate some possible capital restrictions (for instance on the capital tiering) that exist at Delta Lloyd Levensverzekering. A thorough preparation is required for such a merger, taking into account capital projections and sensitivities.

Innovate our business and industry

As part of NN Group we aim to innovate our business and industry. Within NN Leven we are investing in robotising in our operations departments to reduce operating expenses. This is important to stay in good financial health with large closed book with long run-off periods. We are making use of predictive analytics algorithms to direct and increase our strong commercial power. Furthermore NN Leven invests in innovation by organising pitch nights, innovation challenges and hackathons.

We are unlocking our target systems to the online NN customer and broker portals. Customers will have online access to their policy details via the portal and the NN app, and will be able to apply policy changes shortly.

In the search for new opportunities NN Leven started with innovation projects, for example, around the concept of carefree retirement. These initiatives aim to add new value to the growing number of aging people by delivering innovative financial and non-financial services.

Agile and cost efficient business model

Within NN Leven we focus on making our business model agile and cost efficient. The pension organisation has been split into a new business domain and a service domain, in order to create more focus and agility. Throughout the value chain we are investing in an agile way of working.

Within Individual Life Services we are making good progress in the harmonisation of closed-book products, and the migration from legacy to target systems, thus simplifying processes and lowering costs. We have built a partnership with Infosys for the maintenance of unit-linked IT and operations processes, thus increasing our flexibility regarding costs.

Value added products and services

At NN Leven we are committed to offer value-added products and services.

NN Pension New Business has been very successful over the years in the Defined Benefit market. As our market shifts from DB to DC we have been investing in getting our product range in the DC accumulation and DC decumulation above par. Examples are 'bijsparen', which allows participants to invest additional contributions during their working life and 'Doorbeleggen', a product feature to continue investing after their retirement. Furthermore NN Leven implemented modifications in its Life Cycles, redesigned the commercial process and its output and added new features.

NN Leven has furthermore started several initiatives in order to support employers in making decisions about their future pension schemes.

Our values

At NN Leven, 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 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.

Pension advisors are important business partners. Their satisfaction with our operations is crucial to our success, and therefore we monitor it closely. In the Pensions area, NN managed to improve its customer satisfaction, reflecting focus on continuous improvement. At Individual Life the NPS has improved considerably.

The 'Rapportage van het Intern Toezicht 2017' concerning the Pension Fund Governance on the so called 'rechtstreeks verzekerde regelingen' was approved in the Supervisory Board meeting on 23 March 2018. In the report it was concluded that all principles of pension fund governance were observed. The report can be found on the website of Nationale-Nederlanden. (http://www.nn.nl) under the subsection "Wie zijn wij".

Distribution

NN Leven took steps to improve product distribution by improving its distribution approach with actuarial consultancy firms and specialised pension advisors. Specialised pension advisors and international advisory firms continued to play an important role in our distribution strategy. We combine forces with Delta Lloyd to benefit from their successful approach.

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, accountability, learning agility and cooperation.

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. We give clear direction about the future and strategy going forward so employees and management can anticipate. To ensure a smooth integration and combine the best of both worlds (NN and DL) NN Leven started an intensive program to enhance and strengthen the strategic and personal leadership agenda of all managers.

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 own 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.

Risk management

For information regarding risk management reference is made to Note 41 'Risk management'.

Dutch Individual Life 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 individual customers who purchased unit-linked products in the past, addressing vulnerable customer groups as a priority.

To date, NN Leven has reached out to 100% of customers with an Individual Life unit linked policy ('activeren'). We encouraged all customers to carefully assess their unit-linked products in order to enable them to address their personal situation and offered customers the option to switch to another product or make changes to their policy free of charge.

As at 31 December 2017, the Individual Life portfolio of NN Leven comprised of approximately 260 thousand active policies. NN Leven will continue to support customers with an Individual Life unit linked policy by providing aftercare. In a limited number of cases (less than 600), NN Leven settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers and several consumer protection organisations have initiated legal proceedings against NN Leven. Reference is made to Note 35 'Legal proceedings'.

Non-financial statement

NN Leven is exempt from the requirements of the Decree disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie, the 'Decree'). NN Leven is an indirect subsidiary of NN Group, that includes the non-financial information in its Report of the Management Board for the NN Group as a whole pursuant to the Decree.

Conclusions and ambitions

In 2017, NN Leven has shown a proven track record in reducing expenses whilst improving customer experience. The transformation of NN Leven due to the integration of Delta Lloyd Levensverzekering will give a momentum to drive additional efficiency on current processes, reduce legacy systems, reduce costs and further strengthen our customer focus.

Some of the major goals in 2018 for NN Leven will be to integrate two large workforces, combine the best of both worlds and prepare for the legal merger. Our aim is to create winning market propositions, while achieving economies of scale. We do this in close engagement with advisors and clients.

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. The composition of the Supervisory Board met the above-mentioned gender balance as at 11 April 2017, on which date one of the members of the Supervisory Board resigned. However, as NN Leven needs to balance several relevant selection criteria when composing the Boards, the composition of the Management Board did not meet the above-mentioned gender balance in 2017. 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 8 December 2016 (Bulletin of Acts and Decrees 2016, no. 507). NN Leven is an indirect subsidiary of NN Group. NN Group 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 2017 Financial Report.

Financial reporting process
As NN Leven is a part 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 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.

The external auditor attended the meeting of the Supervisory Board on 30 March 2017.

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 is available on the website of the Dutch Association of Insurers (www.verzekeraars.nl).

Rotterdam, 23 March 2018

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	2017	2016
Assets			
Cash and cash equivalents	2	200,837	182,432
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		12,868,777	15,001,771
– non-trading derivatives		2,660,914	3,040,324
– designated as at fair value through profit or loss		282,945	234,142
Available-for-sale investments	4	48,797,505	51,935,476
Loans	5	19,596,214	19,450,535
Reinsurance contracts	14	1,151,150	1,157,953
Associates and joint ventures	6	3,417,387	2,676,562
Real estate investments	7	2,226,793	2,029,542
Equipment		22	14
Intangible assets	8	7,175	9,078
Deferred acquisition costs	9	236,637	243,481
Deferred tax assets	25		23
Other assets	10	2,488,919	2,354,503
Total assets		**93,935,275**	**98,315,836**
Equity			
Shareholder's equity (parent)		15,202,686	15,894,518
Minority interests		665,424	621,392
Undated subordinated loan		450,000	450,000
Total equity	11	**16,318,110**	**16,965,910**
Liabilities			
Subordinated debt	12	600,000	600,000
Other borrowed funds	13	209,939	1,978,068
Insurance and investment contracts	14	71,326,558	73,453,835
Financial liabilities at fair value through profit or loss:	15		
– non-trading derivatives		1,229,750	745,525
Deferred tax liabilities	25	2,001,839	2,513,515
Other liabilities	16	2,249,079	2,058,983
Total liabilities		**77,617,165**	**81,349,926**
Total equity and liabilities		**93,935,275**	**98,315,836**

References relate to the notes starting on page 16. 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		2017		2016
Gross premium income	17		2,289,104		2,386,682
Investment income	18		3,306,567		2,541,063
– gross fee and commission income		10,154		15,932	
– fee and commission expenses		-107,539		-111,910	
Net fee and commission income	19		-97,385		-95,978
Valuation results on non-trading derivatives	20		113,120		219,859
Foreign currency results and net trading income			-48,755		-28,218
Share of result from associates and joint ventures	6		379,654		376,593
Other income			-8,063		2,671
Total income			**5,934,242**		**5,402,672**
– gross underwriting expenditure		3,873,883		4,797,795	
– investment result for risk of policyholders		-365,016		-963,107	
– reinsurance recoveries		-142,446		-149,924	
Underwriting expenditure	21		3,366,421		3,684,764
Staff expenses	22		218,754		236,675
Interest expenses	23		53,162		53,584
Other operating expenses	24		196,576		188,794
Total expenses			**3,834,913**		**4,163,817**
Result before tax			2,099,329		1,238,855
Taxation	25		338,509		194,616
Net result			**1,760,820**		**1,044,239**
Net result attributable to:					
Shareholder of the parent			1,691,926		987,465
Minority interests			68,894		56,774
Net result			**1,760,820**		**1,044,239**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2017		2016
Net result		1,760,820		1,044,239
Items that may be reclassified subsequently to the profit and loss account:				
– unrealised revaluations available-for-sale investments and other	-591,545		2,187,584	
– realised gains/losses transferred to the profit and loss account	-860,071		-193,964	
– changes in cash flow hedge reserve	-637,728		453,301	
– deferred interest credited to policyholders	642,642		-700,678	
– exchange rate differences	-6,092		27,955	
Total other comprehensive income		-1,452,794		1,774,198
Total comprehensive income		308,026		2,818,437
Comprehensive income attributable to:				
Shareholder of the parent	263,994		2,727,026	
Minority interests	44,032		91,411	
Total comprehensive income		308,026		2,818,437

Reference is made to Note 25 ‘Taxation’ for the disclosure on the income tax effects on each component of comprehensive income.

Consolidated statement of cash flows

Consolidated statement of cash flows

For the year ended 31 December	notes	2017	2016
Result before tax		2,099,329	1,238,855
Adjusted for:			
- depreciation		3,407	1,507
- deferred acquisition costs		7,975	21,094
- underwriting expenditure (change in insurance liabilities)		-1,202,518	-1,234,084
- other		-1,524,916	-668,499
Taxation paid		-176,200	-114,451
Changes in:			
- non-trading derivatives		-168,916	1,121,703
- other financial assets at fair value through profit or loss		2,846	-97,463
- other assets		80,136	-778,171
- other liabilities		-268,683	-544,843
Net cash flow from operating activities		**-1,147,540**	**-1,054,352**
Investments and advances:			
- associates and joint ventures	6	-750,718	-311,798
- available-for-sale investments	4	-2,168,344	-4,493,818
- real estate investments	7	-169,205	-399,939
- equipment		-26	
- investments for risk of policyholders		-1,934,979	-1,689,111
- loans		-3,566,386	-3,749,788
- other investments		-1,500	
Disposals and redemptions:			
- associates and joint ventures	6	332,178	354,671
- available-for-sale investments	4	4,260,309	2,926,072
- real estate investments	7	83,211	11
- equipment		12	80
- investments for risk of policyholders		4,369,577	6,016,185
- loans		3,425,285	3,110,942
Net cash flow from investing activities		**3,879,414**	**1,763,507**
Proceeds from other borrowed funds		1,267,307	2,364,799
Repayments of other borrowed funds		-3,035,436	-2,440,491
Dividend paid	11	-925,000	-600,000
Coupon on undated subordinated loan		-20,340	-20,340
Net cash flow from financing activities		**-2,713,469**	**-696,032**
Net cash flow		**18,405**	**13,123**
Cash and cash equivalents at beginning of the period	2	182,432	169,309
Net cash flow		18,405	13,123
Cash and cash equivalents at end of the period		**200,837**	**182,432**

The presentation of the Consolidation statement of cash flows was changed to better align with NN Group. For this reason the relevant comparative figures for 2016 have been restated.

Included in Net cash flow from operating activities:

	2017	2016
Interest received	1,998,740	2,136,981
Interest paid	-53,162	-104,589
Dividend received	402,775	327,550

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 at 1 January 2017	**22,689**	**3,228,030**	**12,643,799**	**15,894,518**	**621,392**	**450,000**	**16,965,910**
Unrealised revaluations available-for-sale investments and other			-566,683	-566,683	-24,862		-591,545
Realised gains/losses transferred to the profit and loss account			-860,071	-860,071			-860,071
Changes in cash flow hedge reserve			-637,728	-637,728			-637,728
Deferred interest credited to policyholders			642,642	642,642			642,642
Exchange rate differences			-6,092	-6,092			-6,092
Total amount recognised directly in equity (Other comprehensive income)			**-1,427,932**	**-1,427,932**	**-24,862**		**-1,452,794**
Net result			1,691,926	1,691,926	68,894		1,760,820
Total comprehensive income			**263,994**	**263,994**	**44,032**		**308,026**
Changes in the composition of the group			-15,571	-15,571			-15,571
Dividend			-925,000	-925,000			-925,000
Coupon on undated subordinated loan			-15,255	-15,255			-15,255
Balance at 31 December 2017	**22,689**	**3,228,030**	**11,951,967**	**15,202,686**	**665,424**	**450,000**	**16,318,110**

	Share capital	Share premium	Reserves	Total Shareholder's equity (parent)	Minority interest	Undated subordinated loan	Total equity
Balance 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			2,152,947	2,152,947	34,637		2,187,584
Realised gains/losses transferred to the profit and loss account			-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
Exchange rate differences			27,955	27,955			27,955
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			-600,000	-600,000			-600,000
Coupon on undated subordinated loan			-15,255	-15,255			-15,255
Balance at 31 December 2016	**22,689**	**3,228,030**	**12,643,799**	**15,894,518**	**621,392**	**450,000**	**16,965,910**

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 applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

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.

Upcoming changes in IFRS-EU

In 2017, 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 2017 and are relevant to NN Leven mainly relate to IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

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.

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 effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9 until 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. NN Leven will apply the temporary exemption and, therefore, NN Leven will implement IFRS 9 in 2021 together with IFRS 17.

NN Leven is preparing for the implementation of IFRS 9 and IFRS 17 in a combined project (see below).

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

Notes to the Consolidated annual accounts continued

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.

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. NN Leven's main types of income (income from insurance contracts and income from financial instruments) are not in scope of IFRS 15. The implementation of IFRS 15 as at 1 January 2018 did not impact Shareholder's equity at that date. There is also no impact on the 2017 Net result. The implementation of IFRS 15 will not have significant impact on the 2018 Consolidated annual accounts of NN Leven.

IFRS 16 'Leases'

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

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued In May 2017. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and DAC for all insurance companies, including NN Leven and its subsidiaries. IFRS 17 is expected to be effective as of 1 January 2021, subject to endorsement in the EU.

NN Leven's current accounting policies for insurance liabilities and DAC under IFRS 4 are largely based on the pre-IFRS accounting policies in the relevant local jurisdictions. IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts and the premium allocation approach mainly for short-duration contracts (typically certain non-life insurance contracts).

The main features of IFRS 17 are:

- Measurement of the insurance liabilities in the balance sheet at current fulfilment value, being the sum of the present value of future cash flows and a risk adjustment
- Remeasurement of the current fulfilment value every reporting period using current assumptions and discount rates
- A Contractual Service Margin (CSM) recognised in the balance sheet that is equal to the unearned profit in the insurance contract at issue and is subsequently recognised as result in the profit and loss account over the remaining life of the portfolio
- Certain changes in the insurance liability are adjusted against the CSM and thereby recognised in the profit and loss account over the remaining life of the portfolio
- The effect of changes in discount rates is recognised either in the profit and loss account or in equity (OCI)
- The presentation of the profit and loss account and the disclosures in the Notes will change fundamentally

IFRS 17 must be implemented retrospectively with amendment of comparative figures. However, several simplifications may be used on transition.

NN Leven will implement IFRS 17 together with IFRS 9 (see above). NN Leven initiated an implementation project and has been performing high-level impact assessments. NN Leven expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholder's equity, net result, presentation and disclosure.

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 as of 1 January 2017 is set out below in the section 'Accounting policies for specific items - Insurance contracts, reinsurance contracts - Adequacy test'.

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 with current market practice. The change represents a change in accounting policy under IFRS and was implemented retrospectively. The change has no impact on shareholder's equity and/or net result.

Notes to the Consolidated annual accounts continued

Changes in classification

Interest income/expense on derivatives

NN Leven changed its classification of interest income/expense on derivatives for which no hedge accounting is applied. This interest income/expense was classified in 'Investment income' and 'Interest expenses' respectively. This classification was changed and interest income/expense on derivatives for which no hedge accounting is applied is now classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these derivatives. The new classification aligns better with current market practice. The relevant comparative figures for 2016 have been amended as shown in the table below. This change only impacts the classification in the Consolidated profit and loss account. There was no impact on shareholder's equity and net result.

Impact of change in classification on the consolidated profit and loss account

	2016 as reported earlier	**Change in classification**	**2016 (restated)**
Income			
Investment income	2,611,931	-70,868	2,541,063
Valuation results on non-trading derivatives	199,996	19,863	219,859
Total income	5,453,677	**-51,005**	5,402,672
Expenses			
Interest expenses	104,589	-51,005	53,584
Total expenses	4,214,822	**-51,005**	4,163,817
Result before tax and Net result		**0**	

Other changes

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. This includes the separate presentation of Deferred tax assets and liabilities in the balance sheet (reference is made to Note 25 'Taxation').

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 41 '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.

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.

Notes to the Consolidated annual accounts continued

The adequacy of insurance liabilities, net of DAC (the net insurance liabilities), is evaluated at each reporting period. The test involves comparing the established insurance liabilities with current best estimate actuarial assumptions. 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 appropriately reflect the risk characteristics of real estate investments.

Reference is made to Note 27 '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 26 '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 and loans (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

Notes to the Consolidated annual accounts continued

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 of 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. Minority interests are initially measured at their proportionate share of the subsidiaries' identifiable net assets at the date of acquisition. 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 36 'Principal subsidiaries'.

Foreign currency translation

Functional and presentation currency

Items included in the Annual accounts of all 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.

Notes to the Consolidated annual accounts continued

Reference is made to Note 26 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when NN Leven has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability 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 34 '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 41 '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 uncertainty 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 used. 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 associates, 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.

Notes to the Consolidated annual accounts continued

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), 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.

Notes to the Consolidated annual accounts continued

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
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (unless the embedded derivative meets the definition of an insurance contract)

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Leven first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

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 through profit or loss (i.e. no revaluations in other comprehensive income). 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

Notes to the Consolidated annual accounts continued

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.

Real estate investments (Note 7)
Real estate investments under construction are included in 'Real estate investments'. Real estate investments are held for long-term rental yields and are not occupied by NN Leven. 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 externally 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. Borrowing costs on real estate investments under construction are capitalised until completion.

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.

Notes to the Consolidated annual accounts continued

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.

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.

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.

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.

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 pay-outs that will be required for insurance claims, including expenses relating to such claims. For some insurance contracts the measurement reflects current market 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 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 for insurance liabilities for 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 and annuity 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 or added to 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).

Notes to the Consolidated annual accounts continued

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.

Adequacy test
The adequacy of the insurance liabilities, net of unamortised interest rate rebates and 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 best estimate reserve makes assumptions about factors such as 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 reinvestment rates in relation to maturing assets and anticipated new premiums, as a result (part of) the revaluation reserve in shareholder's 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.

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

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

	2017	2016
Cash and bank balances	195,611	160,388
Short term deposits	5,226	22,044
Cash and cash equivalents	**200,837**	**182,432**

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

	2017	2016
Investments for risk of policyholders	12,868,777	15,001,771
Non-trading derivatives	2,660,914	3,040,324
Designated as at fair value through profit or loss	282,945	234,142
Financial assets at fair value through profit or loss	**15,812,636**	**18,276,237**

Investments for risk of policyholders

	2017	2016
Equity securities	12,066,146	14,166,921
Debt securities		13,264
Loans and receivables	802,631	821,586
Investments for risk of policyholders	**12,868,777**	**15,001,771**

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

Non-trading derivatives

	2017	2016
Derivatives used in:		
- hedges of net investments in foreign operations	22	9,694
- fair value hedges	41	85,885
- cash flow hedges	1,984,619	2,364,142
Other non-trading derivatives	676,232	580,603
Non trading derivatives	**2,660,914**	**3,040,324**

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

	2017	2016
Equity securities	279,472	217,673
Debt securities		11,895
Other	3,473	4,574
Designated as at fair value through profit or loss	**282,945**	**234,142**

Notes to the Consolidated annual accounts continued

4 Available-for-sale investments

Available-for-sale investments

	2017	2016
Equity securities	5,303,507	5,556,953
Debt securities	43,493,998	46,378,523
Available-for-sale investments	**48,797,505**	**51,935,476**

The cost of the equity securities amounts to EUR 3,810 million (2016: EUR 4,277 million). The cost of the debt securities amounts to EUR 34,594 million (2016: EUR 35,654 million).

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2017	2016	2017	2016	2017	2016
Available-for-sale investments - opening balance	5,556,953	5,579,932	46,378,523	42,488,960	51,935,476	48,068,892
Additions	445,344	596,333	1,723,000	3,897,485	2,168,344	4,493,818
Amortisation			-76,491	-61,863	-76,491	-61,863
Transfers and reclassifications	-163,532	-311,647			-163,532	-311,647
Changes in unrealised revaluations	726,755	180,606	-1,401,078	2,629,376	-674,323	2,809,982
Impairments	-62,396	-66,560	-4,695		-67,091	-66,560
Disposals and redemptions	-1,179,202	-377,921	-3,083,187	-2,548,150	-4,262,389	-2,926,071
Exchange rate differences	-22,494	-43,790	-42,075	-27,285	-64,569	-71,075
Changes in the composition of the group and other changes	2,079		1		2,080	
Available-for-sale investments - closing balance	**5,303,507**	**5,556,953**	**43,493,998**	**46,378,523**	**48,797,505**	**51,935,476**

Transfers and reclassifications in 2017 and 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

	2017	2016
Available-for-sale investments	43,493,998	46,378,523
Loans	1,465,745	2,117,284
Available-for-sale investments and Loans	**44,959,743**	**48,495,807**
Investments for risk of policyholders		13,264
Designated as at fair value through profit or loss		11,895
Financial assets at fair value through profit or loss	**0**	**25,159**
Total exposure to debt securities	**44,959,743**	**48,520,966**

NN Leven's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' of EUR 44,960 million (2016: EUR 48,496 million) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale-investments		Loans		Total	
	2017	2016	2017	2016	2017	2016
Government bonds	33,508,311	37,069,435			33,508,311	37,069,435
Corporate bonds	6,724,219	6,394,347			6,724,219	6,394,347
Financial institution bonds	3,240,285	2,914,741			3,240,285	2,914,741
ABS portfolio	21,183		1,465,745	2,117,284	1,486,928	2,117,284
Debt securities - Available-for-sale investments and Loans	**43,493,998**	**46,378,523**	**1,465,745**	**2,117,284**	**44,959,743**	**48,495,807**

Available-for-sale equity securities

	2017	2016
Listed	3,306,260	3,634,204
Unlisted	1,997,247	1,922,749
Available-for-sale equity securities	**5,303,507**	**5,556,953**

Notes to the Consolidated annual accounts continued

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 occurred 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
impairments (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	nil
impairments (before tax) in the year prior to reclassification	nil

For the years after reclassification	2017	2016	2015	2014	2013	2012	2011	2010	2009
Carrying value	269,651	395,499	522,839	796,838	930,110	1,721,627	3,009,888	4,391,927	5,462,723
Fair value	388,775	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)	-132,623	-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	119,124	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	nil
Effect on result (before tax) for the year (mainly interest income)	-1,381	-3,075	1,724	3,849	-20,669	52,702	88,918	80,436	n.a.
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.	n.a.	111,187
impairments (before tax)	nil	nil	nil	nil	nil	nil	nil	nil	nil
Provision for credit losses (before tax)	116	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 the reclassified assets continue to be recognised in the balance sheet.

5 Loans

Loans

	2017	2016
Loans secured by mortgages	13,191,448	12,648,629
Unsecured loans	4,698,926	4,436,447
Asset backed securities	1,465,745	2,117,284
Deposits	218,743	217,060
Policy loans	14,473	18,915
Other	33,627	51,866
Loans - before loan loss provisions	**19,622,962**	**19,490,201**
Loan loss provisions	-26,748	-39,666
Loans	**19,596,214**	**19,450,535**

Changes in Loans secured by mortgages

	2017	2016
Loans secured by mortgages – opening balance	12,648,630	11,735,243
Additions/ origination	1,951,021	2,107,238
Redemption	-1,358,611	-1,135,496
Amortisation	-44,640	-44,347
Impairments and write-offs	-4,952	-14,009
Loans secured by mortgages – closing balance	**13,191,448**	**12,648,629**

Notes to the Consolidated annual accounts continued

Changes in Loan loss provisions

	2017	2016
Loan loss provisions - opening balance	39,666	49,121
Write-offs	-7,102	-18,204
Recoveries	1,103	948
Increase in Loan loss provisions	-6,919	7,801
Loan loss provisions - closing balance	**26,748**	**39,666**

Loan loss provisions relate for EUR 19,158 thousand (2016: EUR 28,380 thousand) to 'Loans secured by mortgages'.

6 Associates and joint ventures

Associates and joint ventures (2017)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Fund FGR	28	387,126	1,618,041	230,990	228,224	43,465
CBRE Retail Property Fund Iberica L.P.	33	248,672	1,420,387	677,417	180	39
CBRE Dutch Retail Fund FGR	20	225,226	1,463,698	324,467	81,208	45,518
Parcom Investment Fund II B.V.	100	203,232	203,279	47	38,746	1,211
CBRE UK Property Fund L.P.	10	171,882	1,791,512		186,995	21,513
Dutch Residential fund I FGR	10	161,411	1,625,153	38,024	238,742	30,147
CBRE Property Fund Central and Eastern Europe FGR	50	128,867	391,539	133,805	51,236	19,573
Parcom Buy Out Fund IV B.V.	100	92,914	108,946	15,565	99,381	43,466
Parcom Investment Fund III B.V.	100	135,948	147,855	11,908	55,876	337
Allee center Kft	50	114,305	248,400	19,790	34,375	8,450
CBRE European Industrial Fund C.V.	19	116,422	863,133	245,837	81,762	22,665
DPE Deutschland II B GmbH & Co KG	34	110,680	338,680	12,671	23,809	4,836
Fiumaranuova s.r.l.	50	100,514	234,267	32,836	32,359	8,753
Boccaccio - Closed-end Real Estate Mutual Investment Fund	50	90,239	245,170	64,692	21,807	5,299
Dutch Student and Young Professional Housing fund FGR	50	84,659	228,479	56,827	38,078	7,216
CBRE Dutch Retail Fund II FGR	10	77,231	785,655	13,345	22,164	16,257
Le Havre LaFayette SNC	50	52,834	132,041	26,373	-7,331	889
Achmea Dutch Health care Fund	24	58,276	244,896		21,750	1,278
Robeco Bedrijfsleningen FGR	24	62,166	263,653	140	7,103	727
Delta Mainlog Holding GmbH & Co. KG	50	54,910	110,359	539	15,779	1,679
Mirtocan Spain SL	49	73,962	389,178	236,679	3,872	2,488
the Fizz Student Housing Fund SCS	50	80,800	213,764	50,532	21,711	3,867
Other		585,111				
Associates and joint ventures		**3,417,387**				

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 includes EUR 390 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 195 million of receivables from associates and joint ventures. 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.

Notes to the Consolidated annual accounts continued

Associates and joint ventures (2016)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50	68,412	136,824			
CBRE Dutch Office Fund FGR	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		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	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 FGR	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**				

Changes in Associates and joint ventures

	2017	2016
Associates and joint ventures - opening balance	2,676,562	2,174,992
Additions	750,718	311,798
Disposals	-332,178	-354,671
Transfer to/from Available-for-sale investments	164,124	311,647
Share in change in equity (revaluations)	-1,542	2,845
Share of results	379,654	376,593
Dividends received	-216,955	-116,238
Exchange rate differences	-6,586	-30,415
Changes in the composition of the group and other changes	3,590	11
Associated and joint ventures - closing balance	**3,417,387**	**2,676,562**

Transfers to/from available-for-sale investments mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence.

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

7 Real estate investments

Changes in Real estate investments

	2017	2016
Real estate investments - opening balance	2,029,542	1,569,114
Additions	169,205	399,939
Disposals	-83,211	-11
Transfer to/from Other assets	1,055	1,982
Fair value gains/(losses)	110,287	58,521
Other changes	-85	-3
Real estate investments - closing balance	**2,226,793**	**2,029,542**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2017 is EUR 155 million (2016: EUR 141 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to real estate investments recognised in rental income for the year ended 31 December 2017 is EUR 48 million (2016: EUR 43 million).

Notes to the Consolidated annual accounts continued

Real estate investments by year of most recent appraisal

In percentages	2017	2016
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

	2017	2016
Real estate investments	2,226,793	2,029,542
Investments - available-for-sale	812,258	973,135
Associates and joint ventures	2,426,219	1,843,225
Property and equipment - property in own use		11
Other assets - Property obtained from foreclosures	760	1,313
Total Real estate exposure	**5,466,030**	**4,847,226**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure to real estate of EUR 6.2 billion (2016: EUR 5.8 billion). Reference is made to Note 41 'Risk management'.

8 Intangible assets

Changes in Intangible assets

	2017	2016
Intangible assets - opening balance	9,078	9,358
Capitalised expenses	1,500	1,300
Amortisation	-3,400	-1,476
Other changes	-3	-104
Intangible assets - closing balance	**7,175**	**9,078**
Gross carrying value	37,243	35,746
Accumulated amortisation	-30,068	-26,668
Net carrying value	**7,175**	**9,078**

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

	2017	2016
Deferred acquisition costs - opening balance	243,481	264,577
Capitalised	20,504	10,476
Amortisation	-28,479	-31,570
Exchange rate differences	1,131	-2
Deferred acquisition costs - closing balance	**236,637**	**243,481**

The capitalised acquisition costs in 2017 and 2016 are completely related to the Czech business.

Notes to the Consolidated annual accounts continued

10 Other assets

Other assets

	2017	2016
Reinsurance and insurance receivables	311,557	192,448
Property obtained from foreclosures	760	1,313
Income tax receivable	1,525	5,704
Accrued interest and rents	919,135	952,571
Other accrued assets	7,190	15,451
Other	1,248,752	1,187,016
Other assets	**2,488,919**	**2,354,503**

Other contains EUR 1,077 million (2016: EUR 749 million) of current accounts with NN Group companies.

Reinsurance and insurance receivables

	2017	2016
Receivables on account of direct insurance from:		
- policyholders	304,463	171,127
- intermediaries	4,094	1,883
Reinsurance receivables	3,000	19,438
Reinsurance and insurance receivables	**311,557**	**192,448**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 4,285 thousand as at 31 December 2017 (2016: EUR 6,222 thousand). The receivable is presented net of this allowance.

11 Equity

Total equity

	2017	2016
Share capital	22,689	22,689
Share premium	3,228,030	3,228,030
Revaluation reserve	7,158,666	8,580,506
Currency translation reserve	-53,727	-47,635
Other reserves	4,847,028	4,110,928
Shareholder's equity (parent)	**15,202,686**	**15,894,518**
Minority interests	665,424	621,392
Undated subordinated notes	450,000	450,000
Total equity	**16,318,110**	**16,965,910**

Share capital

	Shares (in number)		Ordinary shares	
	2017	2016	2017	2016
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 General 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 2017, 4,537,803 shares have been issued and fully paid up.

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.

Notes to the Consolidated annual accounts continued

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

Share premium

	2017	2016
Share premium - opening balance	3,228,030	3,228,030
Share premium - closing balance	**3,228,030**	**3,228,030**

Changes in Revaluation reserve (2017)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	4,158,815	4,421,691	8,580,506
Unrealised revaluations	-566,683		-566,683
Realised gains/losses transferred to the profit and loss account	-860,071		-860,071
Changes in cash flow hedge reserve		-637,728	-637,728
Deferred interest debited/credited to policyholders	642,642		642,642
Revaluation reserve - closing balance	**3,374,703**	**3,783,963**	**7,158,666**

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	2,152,946		2,152,946
Realised gains/losses transferred to the profit and loss account	-193,964		-193,964
Changes in cash flow hedge reserve		453,301	453,301
Deferred interest debited/credited to policyholders	-700,678		-700,678
Revaluation reserve - closing balance	**4,158,815**	**4,421,691**	**8,580,506**

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

	2017	2016
Currency translation reserves - opening balance	-47,635	-75,590
Exchange rate differences for the period[1]	-6,092	27,955
Currency translation reserves - closing balance	**-53,727**	**-47,635**

1 Exchange rate differences (2016) includes a partial release of negative currency translation reserve to the retained earnings.

Changes in Other reserves (2017)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	3,828,545	282,383	4,110,928
Net result for the period	1,691,926		1,691,926
Transfer to/from Share of associates reserve	-650	650	
Dividend	-925,000		-925,000
Coupon on undated subordinated notes	-15,255		-15,255
Other changes	-15,571		-15,571
Other reserves - closing balance	**4,563,995**	**283,033**	**4,847,028**

Notes to the Consolidated annual accounts continued

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	
Dividend	-600,000		-600,000
Coupon on undated subordinated notes	-15,255		-15,255
Other changes[1]	-48,596		-48,596
Other reserves - closing balance	**3,828,545**	**282,383**	**4,110,928**

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

Proposed appropriation of result

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Leven, the relevant provisions 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 2017 net result of EUR 1,692 million less the (interim and final) cash dividend to the retained earnings.

Undated subordinated loan

Interest rate	Year of Issue	Due date		Notional amount	Balance sheet value
				2017	2016
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 at par value 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.

In 2017, coupon payments on the undated subordinated notes of EUR 15 million after tax (2016: EUR 15 million after tax) have been distributed out of the Other reserves.

12 Subordinated debt

Subordinated debt

Interest rate	Year of Issue	Due date	First call date	Notional amount		Balance sheet value	
				2017	2016	2017	2016
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 at par value 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

	2017	2016
Other borrowed funds - opening balance	1,978,068	2,053,759
Additions	1,267,307	2,364,798
Disposals	-3,035,436	-2,440,489
Other borrowed funds - closing balance	**209,939**	**1,978,068**

Under note 34 Contingent liabilities and commitments an overview of the internal borrowing facilities are disclosed.

Notes to the Consolidated annual accounts continued

14 Insurance and investment contracts, Reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2017	2016	2017	2016	2017	2016
Non-participating life policy liabilities	4,449,711	4,852,215	58,002	47,577	4,507,713	4,899,792
Participating life policy liabilities	46,406,692	44,990,926	575,443	619,159	46,982,135	45,610,085
Liabilities for (deferred) profit sharing and rebates	5,973,163	6,854,179			5,973,163	6,854,179
Life insurance liabilities excluding liabilities for risk of policyholders	**56,829,566**	**56,697,320**	**633,445**	**666,736**	**57,463,011**	**57,364,056**
Life insurance liabilities for risk of policyholders	12,699,495	14,920,317	517,705	475,487	13,217,200	15,395,804
Life insurance liabilities	**69,529,061**	**71,617,637**	**1,151,150**	**1,142,223**	**70,680,211**	**72,759,860**
Investment contracts for risk of company	646,347	678,245			646,347	678,245
Investment contracts for risk of policyholders				15,730		15,730
Investment contracts liabilities	**646,347**	**678,245**	**0**	**15,730**	**646,347**	**693,975**
Insurance and investment contracts, reinsurance contracts	**70,175,408**	**72,295,882**	**1,151,150**	**1,157,953**	**71,326,558**	**73,453,835**

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.

Changes in Life insurance liabilities

	Net life insurance liabilities[1]		Net liabilities for risk of policyhouders[2]		Reinsurance contracts		Life insurance liabilities	
	2017	2016	2017	2016	2017	2016	2017	2016
Life insurance liabilities - opening 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
Current years liabilities	1,377,950	1,501,939	507,317	525,761	6,675	8,380	1,891,942	2,036,080
Change in deferred profit sharing liability	-856,549	934,891					-856,549	934,891
Prior year liabilities:								
-benefit payments to policyholders	-3,719,965	-3,743,950	-1,401,430	-1,778,524	-7,710	-9,695	-5,129,105	-5,532,169
-interest accrual and changes in fair value of liabilities	1,927,677	2,599,266			1,195	1,154	1,928,872	2,600,420
-valuation changes for risk of policyholders			365,170	963,107			365,170	963,107
Exchange rate differences	25,675	2,713	26,249	1	67	111	51,991	2,825
Other changes[3]	1,377,458	2,124,945	-1,718,128	-2,744,533	8,700	-16,739	-331,970	-636,327
Life insurance liabilities - closing balance	**56,829,566**	**56,697,320**	**12,699,495**	**14,920,317**	**1,151,150**	**1,142,223**	**70,680,211**	**72,759,860**

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% (2016: 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 2017, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 1,154 million (2016: EUR 1,177 million).

Changes in Investment contracts

	2017	2016
Investment contracts - opening balance	693,975	747,451
- payments to contract holders	-63,726	-74,426
- interest accrual	15,710	20,961
Exchange rate differences	388	-11
Investment contracts - closing balance	**646,347**	**693,975**

Notes to the Consolidated annual accounts continued

Liabilities for (deferred) profit sharing and rebates

	2017	2016
Profit sharing for policyholders	198,830	226,407
Deferred profit sharing liability (individual)	5,774,333	6,627,772
Liabilities for (deferred) profit sharing and rebates	**5,973,163**	**6,854,179**

Changes in Liabilities for (deferred) profit sharing and rebates

	2017	2016
Profit sharing for policyholders		
Liabilities for (deferred) profit sharing and rebates - opening balance	226,407	259,195
Profit sharing allocated to policyholders	-47,381	-84,902
Profit sharing dependent on business results	40,642	52,117
Other changes	-20,838	-3
Liabilities for (deferred) profit sharing and rebates - closing balance	**198,830**	**226,407**
Deferred profit sharing liability (individual)		
Deferred profit sharing liability (individual) - opening balance	6,627,772	5,692,887
Allocation of share in unrealised revaluations	-856,549	934,891
Other changes	3,110	-6
Deferred profit sharing liability (individual) - closing balance	**5,774,333**	**6,627,772**

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

	2017	2016
Derivatives used in:		
- fair value hedges	326,679	202
- cash flow hedges	401,169	370,431
- hedges of net investments in foreign operations	346	864
Other non-trading derivatives	501,556	374,028
Non-trading derivatives	**1,229,750**	**745,525**

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

16 Other liabilities

Other liabilities

	2017	2016
Income tax payable	59,059	
Other staff-related liabilities		166
Other taxation and social security contributions	13,253	24,534
Deposits from reinsurers	1,072,742	1,079,824
Accrued interest	93,330	74,747
Costs payable	49,344	14,265
Amounts payable to brokers	3,923	2,223
Amounts payable to policyholders	802,364	677,522
Reorganisation provisions	9,037	13,377
Other provisions	13,545	11,321
Amounts to be settled	76,477	108,708
Other	56,005	52,296
Other liabilities	**2,249,079**	**2,058,983**

Reorganisation provisions were recognised for operations in NN Leven for the cost of workforce reductions. Additions to the reorganisation provisions for an amount of EUR 17 million (2016: EUR 14 million) were recognised due to additional initiatives announced during those years. During 2017 EUR 21 million was charged to the reorganisation provisions for the cost of workforce reductions (2016: EUR 10 million). For litigation provisions reference is made to Note 35 ‘Legal proceedings’.

Notes to the Consolidated annual accounts continued

17 Gross premium income

Premiums written – net of reinsurance

	Gross		Reinsurance		Net of reinsurance	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Insurance for risk of insurer	1,648,155	1,737,096	91,466	93,016	1,556,689	1,644,080
Insurance for risk of policyholders	640,949	649,586	70,037	72,562	570,912	577,024
Total	**2,289,104**	**2,386,682**	**161,503**	**165,578**	**2,127,601**	**2,221,104**

Gross premium income (2017)

	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	227,504	38,671	188,833	223,243	66,296	156,947
– with profit sharing	398,540	51,120	347,420		109	-109
	626,044	**89,791**	**536,253**	**223,243**	**66,405**	**156,838**
Group						
– without profit sharing	45,856		45,856	297,926		297,926
– with profit sharing	415,891	1,632	414,259	35,663		35,663
	461,747	**1,632**	**460,115**	**333,589**	**0**	**333,589**
Total regular premiums	**1,087,791**	**91,423**	**996,368**	**556,832**	**66,405**	**490,427**
Single premiums						
Individual						
– without profit sharing	56,054		56,054	31,327	3,632	27,695
– with profit sharing	134,507	43	134,464			
	190,561	**43**	**190,518**	**31,327**	**3,632**	**27,695**
Group						
– without profit sharing	245,248		245,248	31,873		31,873
– with profit sharing	124,555		124,555	20,917		20,917
	369,803	**0**	**369,803**	**52,790**	**0**	**52,790**
Total Single premiums	**560,364**	**43**	**560,321**	**84,117**	**3,632**	**80,485**
Total Gross premium income	**1,648,155**	**91,466**	**1,556,689**	**640,949**	**70,037**	**570,912**

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 (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**	**0**	**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	**0**	**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	**0**	**269,031**	**86,710**	**0**	**86,710**
Total Single premiums	**548,024**	**0**	**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**

Geographical segmentation of gross premium income

	2017	2016
Netherlands	2,135,824	2,231,070
Other EU member states	153,280	155,612
Total	**2,289,104**	**2,386,682**

Reference is made to Note 21 ‘Underwriting expenditure’ for disclosure on reinsurance ceded.

Notes to the Consolidated annual accounts continued

18 Investment income

Investment income

	2017	2016
Interest income from investments in debt securities	1,087,578	1,114,518
Interest income from loans:		
- unsecured loans	140,171	150,606
- mortgage loans	502,666	501,940
- policy loans	900	1,131
- other	33,631	41,667
Interest income from Investment in debt securities and loans	**1,764,946**	**1,809,862**
Realised gains/losses on disposal of Available-for-sale debt securities	553,657	166,131
Impairment of available-for-sale debt securities	-4,695	
Realised gains/losses and impairments of available-for-sale debt securities	**548,962**	**166,131**
Realised gains/losses on disposal of Available-for-sale equity securities	489,412	80,229
Impairments of available-for-sale equity securities	-62,396	-66,560
Realised gains/losses and impairments of available-for-sale equity securities	**427,016**	**13,669**
Interest income on non-trading derivatives	155,831	191,165
Income from real estate investments	106,783	98,205
Dividend income	185,820	211,312
Change in loan loss provisions	6,919	-7,801
Change in fair value of real estate investments	110,290	58,520
Investment income	**3,306,567**	**2,541,063**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

19 Net fee and commission income

Net fee and commission income

	2017	2016
Asset management fees	9,848	13,562
Other	306	2,370
Gross fee and commission income	**10,154**	**15,932**
Asset management fees	-106,995	-110,722
Insurance brokerage and advisory fees	-544	-1,188
Fee and commission expenses	**-107,539**	**-111,910**
Net Fee and commission income	**-97,385**	**-95,978**

Notes to the Consolidated annual accounts continued

20 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2017	2016
Change in fair value of derivatives relating to:		
- fair value hedges	-286,126	85,885
- cash flow hedges (ineffective portion)	-4,099	39,475
- other non-trading derivatives	126,084	180,628
Net result on non-trading derivatives	**-164,141**	**305,988**
Change in fair value of assets and liabilities (hedged items)	283,455	-85,570
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	-6,194	-559
Valuation results on non-trading derivatives	**113,120**	**219,859**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

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 21 '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 28 'Derivatives and hedge accounting'.

21 Underwriting expenditure

Underwriting expenditure

	2017	2016
Gross underwriting expenditure:		
- before effect of investment result for risk of policyholder	3,508,867	3,834,688
- effect of investment result for risk of policyholder	365,016	963,107
Gross underwriting expenditure	**3,873,883**	**4,797,795**
Investment result for risk policyholders	-365,016	-963,107
Reinsurance recoveries	-142,446	-149,924
Underwriting expenditure	**3,366,421**	**3,684,764**

The investment income and valuation results regarding investments for risk of policyholders is EUR 365 million (2016: EUR 963 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

	2017	2016
Reinsurance and retrocession premiums	161,503	165,578
Gross benefits	4,550,219	4,427,089
Reinsurance recoveries	-142,446	-149,924
Change in life insurance liabilities	-1,286,186	-842,959
Costs of acquiring insurance business	36,689	49,060
Other underwriting expenditure	16,515	10,024
Profit sharing and rebates	30,127	25,896
Underwriting expenditure	**3,366,421**	**3,684,764**

Gross benefits

	2017	2016
Surrenders	1,107,952	897,522
Payments upon maturity	1,470,686	1,643,102
Payments upon death	221,715	148,374
Annuities and other periodic payments	1,734,208	1,719,891
Other	15,658	18,200
Gross benefits	**4,550,219**	**4,427,089**

Notes to the Consolidated annual accounts continued

Costs of acquiring insurance business

	2017	2016
Changes in deferred acquisitions costs	9,643	21,828
Brokerage fee	26,172	26,564
Other commissions	874	668
Costs of acquiring insurance business	**36,689**	**49,060**

Profit sharing and rebates

	2017	2016
Distributions on account of interest or underwriting results	-10,516	-26,222
Bonuses added to policies[1]	40,643	52,118
Profit sharing and rebates	**30,127**	**25,896**

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 and investment contracts amounted to EUR 37 million (2016: EUR 49 million). This includes amortisation and unlocking of DAC of EUR 28 million (2016: EUR 32 million) and the net amount of commissions paid of EUR 29 million (2016: EUR 27 million) and commissions capitalised in DAC of EUR 21 million (2016: EUR 10 million).

The total amount of commission paid and commission payable amounted to EUR 41 million (2016: EUR 39 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 29 million (2016: EUR 27 million) referred to above and commissions recognised in 'Other underwriting expenditure' of EUR 12 million (2016: EUR 12 million). Other underwriting expenditure also includes reinsurance commissions paid of EUR -3 million (2016: EUR 2 million).

22 Staff expenses

Staff expenses

	2017	2016
Salaries	102,948	113,218
Variable salaries	6,470	4,110
Pension costs	24,037	23,479
Social security costs	15,362	16,606
Share-based compensation arrangements	1,302	977
External staff costs	61,974	71,762
Education	2,060	1,838
Other staff costs	4,601	4,685
Staff expenses	**218,754**	**236,675**

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. Actual costs are charged to NN Leven by NN Personeel.

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

	2017	2016
Netherlands - average number of employees on full-time equivalent basis	1,553	1,683
Rest of Europe - average number of employees on full-time equivalent basis	180	204
Number of employees	**1,733**	**1,887**

Remuneration of Management Board and Supervisory Board

Reference is made to Note 39 'Key management personnel compensation'.

Notes to the Consolidated annual accounts continued

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)	
	2017	2016	2017	2016
Share awards outstanding - opening balance	34,765	53,272	25.74	19.47
Granted	20,632	23,948	31.01	29.45
Performance effect	-1,371	4,107	17.91	13.88
Vested	-25,835	-42,571	26.49	20.03
Forfeited	-2,265	-3,991	22.44	22.57
Share awards outstanding - closing balance	**25,926**	**34,765**	**29.32**	**25.74**

In 2017, 12,148 share awards on NN Group shares (2016: 13,398) were granted to the members of the Management Board of NN Leven. To other employees of NN Leven 8,484 share awards on NN Group shares (2016: 10,550) were granted.

As at 31 December 2017 the share awards on NN Group shares consist of 25,926 share awards (2016: 34,765) 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 2017 total unrecognised compensation costs related to share awards amount to EUR 178 thousand (2016: EUR 166 thousand). These costs are expected to be recognised over an average period of 1.3 years (2016: 1.3 years).

Sharesave Plan
In August 2014, NN Group introduced a 'Sharesave' plan which was open to all employees. Under the plan, from August 2014 eligible employees could save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. The 'Sharesave' plan ended in 2017. At the end of this three-year period, employees received their savings together with a gross gain, as at the end of the three-year period the NN Group share price exceeded the initial trading price of NN Group shares on the Euronext Amsterdam on 7 July 2014. The gross gain was limited to a 100% increase in the share price and was paid in cash.

23 Interest expenses

Interest expenses

	2017	2016
Interest expenses on non-trading derivatives	7,641	11,773
Other interest expenses	45,521	41,811
Interest expenses	**53,162**	**53,584**

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

In 2017, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 1,765 million and EUR 46 million respectively (2016: EUR 1,810 million and EUR 42 million respectively).

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

Total net interest income

	notes	2017	2016
Investment income	18	1,920,778	2,001,027
Interest expenses on non-trading derivatives		-7,641	-11,773
Other interest expenses		-45,521	-41,811
Total net interest income		**1,867,616**	**1,947,443**

Notes to the Consolidated annual accounts continued

24 Other operating expenses

Other operating expenses

	2017	2016
Depreciation of property and equipment	7	31
Amortisation of software	3,400	1,477
Computer costs	56,397	49,383
Office expenses	12,390	16,793
Travel and accommodation expenses	1,765	2,172
Advertising and public relations	5,433	9,087
External advisory fees	9,984	13,177
Addition/(releases) of provision for reorganisation and relocations	16,761	13,420
Allocated staff expenses head office support functions	26,760	27,675
Allocated staff expenses services	38,273	50,453
Other	25,406	5,126
Other operating expenses	**196,576**	**188,794**

Fees of auditors

Reference is made to Note 48 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit related fees. The services rendered by the auditor, in addition to the statutory audit, includes an audit in relation to reporting to regulators and a report of factual findings to external parties.

25 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.

Income tax payable amounts to EUR 57,534 thousand (2016: EUR 5,704 thousand receivable) concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 10 'Other assets' and Note 16 'Other liabilities'. Income tax payable concerns tax receivable to NN Group for the most recent quarter.

Deferred tax (2017)

	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 2017[1]
Investments	2,722,101	-541,554	519	-22,949	681	2,158,798
Real estate investments	231,746	-5,554	26,650	24,465		277,307
Acquisition costs	54,859		-324		120	54,655
Fiscal equalisation reserve	337					337
Depreciation	-210		206		-6	-10
Insurance liabilities	-1,973,546	211,588	-1,137		-790	-1,763,885
Cash flow hedges	1,454,555	-215,842				1,238,713
Other provisions	-3,546		991		-11	-2,566
Receivables	-803		-49		-42	-894
Loans	33,194			2,175		35,369
Unused tax losses carried forward	-29,868		341	2,901		-26,626
Other	24,673	3,211	2,430	218	109	30,641
Deferred tax	**2,513,492**	**-548,151**	**29,627**	**6,810**	**61**	**2,001,839**
Presented in the balance sheet as:						
Deferred tax liabilities	2,513,515					2,001,839
Deferred tax assets	-23					
Deferred tax	**2,513,492**					**2,001,839**

1 Positive amounts are liabilities, negative amounts are assets

Notes to the Consolidated annual accounts continued

Deferred tax (2016)

	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 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

The portion of the deferred tax liabilities, that relates to REI Investment I B.V. and is not part of the fiscal unity, amounts to EUR 90,031 thousand (a liability) (2016: EUR 63,656 thousand (a liability)).

Deferred tax on unused tax losses carried forward

	2017	2016
Total unused tax losses carried forward	184,314	202,893
Unused tax losses carried forward not recognised as a deferred tax asset[1]	-84,961	-90,215
Unused tax losses carried forward recognised as a deferred tax asset[2]	**99,353**	**112,678**
Average tax rate	26.8%	26.5%
Deferred tax asset	**26,626**	**29,868**

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 asset recognised		Deferred tax asset recognised	
	2017	2016	2017	2016
Within 1 year		10,131		
More than 1 year but less than 5 years			23,771	34,738
Unlimited	84,961	80,084	75,582	77,940
Total	**84,961**	**90,215**	**99,353**	**112,678**

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

Taxation on result

	2017	2016
Current tax	308,870	152,711
Deferred tax	29,639	41,905
Taxation on result	**338,509**	**194,616**

Notes to the Consolidated annual accounts continued

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

	2017	2016
Result before tax	2,099,329	1,238,855
Weighted average statutory tax rate	24.9%	24.9%
Weighted average statutory tax amount	**523,274**	**308,679**
Associates exemption	-148,110	-105,375
Other income not subject to tax	-19,226	3,653
Expenses not deductible for tax purposes	744	2,278
Adjustments to prior periods	-18,173	-14,619
Effective tax amount	**338,509**	**194,616**
Effective tax rate	**16.1%**	**15.7%**

The weighted average statutory tax rate for 2017 did not change significantly from that of 2016.

The effective tax rate in 2017 of 16.1% was lower than the weighted average statutory tax rate of 24.9% in 2017, due to tax exempt income, non-taxed other income components and prior year adjustments in 2017.

Taxation on components of other comprehensive income

	2017	2016
Unrealised revaluations Available for sale investment and other	366,023	-742,598
Realised gains/losses transferred to profit and loss account	172,810	64,504
Changes in cash flow hedge reserve	212,993	-151,227
Deferred interest credited to policyholders	-211,588	234,208
Income tax	**540,238**	**-595,113**

26 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	200,837	182,432	200,837	182,432
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	12,868,777	15,001,771	12,868,777	15,001,771
– non-trading derivatives	2,660,914	3,040,324	2,660,914	3,040,324
– designated as at fair value through profit or loss	282,945	234,142	282,945	234,142
Available-for-sale investments	48,797,505	51,935,476	48,797,505	51,935,476
Loans	21,247,570	21,015,684	19,596,214	19,450,535
Financial assets	**86,058,548**	**91,409,829**	**84,407,192**	**89,844,680**
Financial liabilities				
Subordinated debt	644,490	655,996	600,000	600,000
Other borrowed funds	201,817	1,965,184	209,939	1,978,068
Investment contracts for risk of company	686,742	723,651	646,347	678,245
Investment contracts for risk of policyholders		15,730		15,730
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	1,229,750	745,525	1,229,750	745,525
Financial liabilities	**2,762,799**	**4,106,086**	**2,686,036**	**4,017,568**

For the other financial assets and financial liabilities not included in the table above, including short-term receivables and payables, the carrying amount is a reasonable approximation of fair value.

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

Notes to the Consolidated annual accounts continued

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.

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.

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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 (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	11,598,873	466,718	803,186	12,868,777
Non-trading derivatives	14,106	2,483,799	163,009	2,660,914
Financial assets designated as at fair value through profit or loss	191,469	91,476		282,945
Available-for-sale investments	37,474,102	10,176,935	1,146,468	48,797,505
Financial assets	**49,278,550**	**13,218,928**	**2,112,663**	**64,610,141**
Financial liabilities				
Investment contracts for risk of policyholders				
Non-trading derivatives	11,170	1,214,995	3,585	1,229,750
Financial liabilities	**11,170**	**1,214,995**	**3,585**	**1,229,750**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Trading 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**

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.

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

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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 (2017)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets - opening balance	822,739		1,150,449	1,973,188
Amounts recognised in the profit and loss account	-24,812		78,725	53,913
Revaluation recognised in other comprehensive income (equity)			123,203	123,203
Purchase	5,971	74	162,144	168,189
Sale	-712		-3	-715
Maturity/settlement			-195,012	-195,012
Other transfers and reclassifications			-163,515	-163,515
Transfers into Level 3		162,935		162,935
Exchange rate differences			-9,523	-9,523
Level 3 Financial assets - closing balance	**803,186**	**163,009**	**1,146,468**	**2,112,663**

Transfers into Level 3 and reclassification (2017)

Reclassification in 2017 mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence. Reference is made to Note 6 'Associates and joint ventures' for more information.
The transfers into Level 3 mainly reflect a change in fair value measurement, resulting in classification as Level 3 instead of Level 2.

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	-1,428		-3,903	-5,331
Revaluation recognised in other comprehensive income (equity)			11,539	11,539
Purchase	26,057		259,024	285,081
Sale	-14,926	-2,157	-24	-17,107
Other transfers and reclassifications			-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 liabilities (2017)

	Non-trading derivatives
Level 3 Financial liabilities - opening balance	
Transfers into Level 3	3,585
Level 3 Financial liabilities - closing balance	**3,585**

Level 3 – Amounts recognised in the profit and loss account during the year (2017)

	Held at balance sheet date	Derecognised during the period	Total
Investments for risk of policyholders	-24,812		-24,812
Available-for-sale investments	-9,237	87,962	78,725
Amounts recognised in the profit and loss account during the year	**-34,049**	**87,962**	**53,913**

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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 period	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 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2017 of EUR 64,610 million (2016: EUR 70,212 million) include an amount of EUR 2,113 million (3.3%) that is classified as Level 3 (2016: EUR 1,973 million (2.8%)). 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.

Investments for risk of policyholders

Of the EUR 2,113 million (2016: EUR 1,973 million), Level 3 investments EUR 803 million (2016: EUR 823 million) relates to investments for risk of policyholders. Net result is unaffected when reasonable possible alternative assumptions would have been used in measuring these investments.

Non-trading derivatives

Non-trading derivatives classified as 'Level 3 Financial assets' are mainly used for economic hedges ("basket option"). These derivatives classified as Level 3 amounted EUR 163 million as at 31 December 2017 (2016: nil).

Available-for-sale investments

The remaining EUR 1,146 million (2016: EUR 1,150 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 (2016: EUR 115 million), being approximately 0.7% (before tax) (2016: 0.7% (before tax), of 'Total equity'.

Level 3 Financial liabilities at fair value
Non-trading derivatives

The total amount of financial liabilities classified as Level 3 at 31 December 2017 of EUR 3.6 million (2016: nil) relates to non-trading derivative positions. These derivatives are used to for the longevity hedge. Reference is made to Note 28 'Derivatives and hedge accounting' for more information.
EUR 3.6 million relates to longevity hedges closed by NN Leven. It is estimated that a 5% increase in mortality assumptions for these longevity hedges reduces result and equity before tax by EUR 16 million and a 5% decrease in mortality assumptions increases result and equity before tax by EUR 15 million.

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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 at amortised cost (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	200,837			200,837
Loans		2,881,401	18,366,169	21,247,570
Financial assets	**200,837**	**2,881,401**	**18,366,169**	**21,448,407**
Financial liabilities				
Subordinated debt		644,490		644,490
Other borrowed funds		197,972	3,845	201,817
Investment contracts for risk of company			686,742	686,742
Financial liabilities	**0**	**842,462**	**690,587**	**1,533,049**

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (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**

27 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 section '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	
	2017	2016	2017	2016
Real estate investments	2,226,793	2,029,542	2,226,793	2,029,542

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

Methods applied in determining the fair value of non-financial assets (2017)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,226,793	2,226,793

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

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Level 3 Non-financial assets

	Real estate investments	
	2017	2016
Level 3 Non-financial assets - opening balance	2,029,542	1,569,114
Purchase of assets	169,205	399,939
Sale of assets	-83,211	-11
Amounts recognised in the profit and loss account during the year	110,287	58,521
Changes in the composition of the group and other changes	970	1,979
Level 3 Non-financial assets - closing balance	**2,226,793**	**2,029,542**

Level 3 – Amounts recognised in the profit and loss account during the year (2017)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	111,015	-728	110,287

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

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.

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 investments.

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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	93,900	DCF	203.5	321	5.2	25	5.7
Industrial	52,450	DCF	47 - 49	46 - 49	5.3		8.1
Germany							
Office	86,510	Income Capitalisation	261	242	4.1		3.1
Industrial	212,505	DCF	42 - 102	43 - 102	5.2 - 7.3	2	4.6
Retail	311,500	DCF	198 - 384	191 - 383	4.4 - 4.6	5	7.1
France							
Office	143,400	DCF	509 - 597	487 - 638	4.1 - 5.6		2.7
Retail	96,980	Income Capitalisation	33 - 50	34 - 55	1.7 - 6.2	3	5.3
Industrial	128,840	DCF	42 - 80	42 - 77	5.5 - 12.4	2	5.6
Spain							
Retail	282,170	DCF	194 - 264	190 - 274	5.2 - 6.1	8	4.8
Industrial	126,083	Income Capitalisation	18 - 85	24 - 85	0.7 - 7.6	16	2.6
Italy							
Retail	278,820	DCF	208 - 858	170 - 850	3.5 - 6.9	4	7.1
Belgium							
Industrial	132,220	DCF	102 - 296	125 - 300	4.9 - 7.6	7	4.1
Retail	21,980	DCF	57	43	9.2		0.6
Denmark							
Residential	94,340	DCF	244	252	4.4	1	4.0
Industrial	17,192	DCF	151	128	6.4		12.2
Poland							
Retail	98,200	DCF	153	162	6.6	6	3.5
Real estate under construction and other	49,703						
Total Real estate	**2,226,793**					**5.2**	**5.1**

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.

28 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.

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To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Leven mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS-EU, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk.

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 stabilise own funds via hedging the credit spread volatility in core government bonds. As at 31 December 2017, the face value of outstanding spread lock trades totalled EUR 3,698 million in core government bonds.

In 2017 NN Leven entered into a longevity hedge, based on a general index of Dutch mortality. The maximum pay-out of the hedge amounts to EUR 100 million, payable after twenty years. The hedge is financed by annual premium payments to the counterparty. The longevity hedge is accounted for as derivative and has a fair value of EUR -3.6 million as per 31 December 2017. The hedge reduces the impact of longevity trend scenarios implying more improvement in life expectancy. The regulator gave approval to include the effects of this specific hedge on the SCR. The purpose of the hedge is to reduce the longevity risk. The instrument builds NN Leven's Longevity management capabilities through practical experience with index based hedges. Future deals require separate regulatory approval.

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 2017, NN Leven recognised EUR -638 million (2016: EUR 453 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 2017 is EUR 5,045 million (2016: EUR 5,896 million) gross and EUR 3,784 million (2016: EUR 4,422 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 4 million expense (2016: EUR 39 million income) which was recognised in the profit and loss account.

As at 31 December 2017, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 1,583 million (2016: EUR 1,994 million), presented in the balance sheet as EUR 1,984 million (2016: EUR 2,364 million) positive fair value under assets and EUR 401 million (2016: EUR 370 million) negative fair value under liabilities.

As at 31 December 2017 and 2016, 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 156 million (2016: EUR 191 million) and EUR 8 million (2016: EUR 12 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.

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For the year ended 31 December 2017, NN Leven recognised EUR -286.1 million (2016: 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 283.4 million (2016: EUR -85.6 million) fair value changes recognised on hedged items. This resulted in EUR -2.7 million (2016: EUR 0.3 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2017, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -326.7 million (2016: EUR 85.7 million), presented in the balance sheet as EUR 0.0 million (2016: EUR 85.9 million) positive fair value under assets and EUR 326.7 million (2016: EUR 0.2 million) negative fair value under liabilities.

29 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 (2017)

	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	200,837						200,837
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						12,868,777	12,868,777
– non-trading derivatives	163,993	45,911	18,708	48,233	2,383,921	148	2,660,914
– designated as at fair value through profit or loss				3,473		279,472	282,945
Available-for-sale investments	223,481	272,509	711,824	6,992,237	35,293,946	5,303,508	48,797,505
Loans	24,390	106,063	421,674	2,962,645	16,081,442		19,596,214
Reinsurance contracts	14,475	16,503	57,413	273,374	271,680	517,705	1,151,150
Intangible assets	199	399	1,794	4,783			7,175
Deferred acquisition costs	1,262	2,731	13,926	73,593	145,124	1	236,637
Other assets	846,022	213,292	1,413,207	7,619	7,581	1,198	2,488,919
Remaining assets (for which maturities are not applicable)[3]						5,644,202	5,644,202
Total assets	**1,474,659**	**657,408**	**2,638,546**	**10,365,957**	**54,183,694**	**24,615,011**	**93,935,275**

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 (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:							
– 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
Deferred tax assets				23			23
Other assets	857,826	214,829	1,144,911	25,160	111,351	426	2,354,503
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

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30 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 41 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2017)

	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			619	204,498	4,822			209,939
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	1,342	11,670	4,109	121,328	1,148,619		-57,318	1,229,750
Financial liabilities	**1,342**	**11,670**	**4,728**	**325,826**	**1,753,441**	**0**	**-57,318**	**2,039,689**
Insurance and investment contracts	366,552	591,477	2,329,429	11,790,610	43,002,307	13,246,183		71,326,558
Deferred tax liabilities					1,727,421	274,418		2,001,839
Other liabilities	921,244	179,984	226,336	181,009	268,295	472,211		2,249,079
Non-financial liabilities	**1,287,796**	**771,461**	**2,555,765**	**11,971,619**	**44,998,023**	**13,992,812**	**0**	**75,577,476**
Total liabilities	**1,289,138**	**783,131**	**2,560,493**	**12,297,445**	**46,751,464**	**13,992,812**	**-57,318**	**77,617,165**
Coupon interest due on financial liabilities[3]	-992	-54	-1,448	-6,520	168			-8,846

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 (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
Deferred tax liabilities				52,656	2,228,039	232,820		2,513,515
Other liabilities	811,239	109,707	54,948	287,301	291,753	504,035		2,058,983
Non-financial liabilities	**1,100,951**	**769,269**	**2,269,436**	**12,079,036**	**45,646,771**	**16,160,870**	**0**	**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

Notes to the Consolidated annual accounts continued

31 Assets not freely disposable

The assets not freely disposable relate primarily to investments of nil (2016: EUR 125 million) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 32 'Transferred, but not derecognised financial assets'.

32 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 cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Leven is obligated to return this amount upon termination of the lending arrangement.

Transfer of financial assets not qualifying for derecognition

	2017	2016
Transferred assets at carrying value		
Available-for-sale investments	7,021,667	5,572,634
Associated liabilities at carrying value		
Other borrowed funds	202,555	1,500,000

33 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 (2017)

					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	2,660,692		2,660,692	-1,033,757	-52,527	1,574,408
Financial assets at fair value through profit or loss		**2,660,692**		**2,660,692**	**-1,033,757**	**-52,527**	**1,574,408**
Available-for-sale	Other	100,617		100,617	-34,882		65,735
Investments		**100,617**		**100,617**	**-34,882**		**65,735**
Total financial assets		**2,761,309**		**2,761,309**	**-1,068,639**	**-52,527**	**1,640,143**

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 instruments**	**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	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**

Notes to the Consolidated annual accounts continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	1,118,843		1,118,843	-1,033,757	-82,401	2,685
Financial liabilities at fair value through profit or loss		**1,118,843**		**1,118,843**	**-1,033,757**	**-82,401**	**2,685**
Other items where offsetting is applied in the balance sheet		50,123		50,123	-34,882	-15,029	212
Total financial liabilities		**1,168,966**		**1,168,966**	**-1,068,639**	**-97,430**	**2,897**

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 liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
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		
Total financial liabilities		**748,108**		**748,108**	**-561,437**	**-160,209**	**26,462**

Notes to the Consolidated annual accounts continued

34 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 (2017)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	235,812	337,530	929,567	516,771	63,609	828,124	2,911,413
Contingent liabilities and commitments	**235,812**	**337,530**	**929,567**	**516,771**	**63,609**	**828,124**	**2,911,413**

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**

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. Of these commitments EUR 1,013 million (2016: EUR 625 million) (mortgages and other) concerns the parent company.

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.

In November 2016 a loan agreement was signed with Nationale-Nederlanden Interfinance B.V. ('NNIF'). The facility had a notional amount of EUR 250 million. In June 2017 the terms of the loan were amended and the notional amount was increased to EUR 1,000 million.

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

	2017
2018	7,352
2019	5,157
2020	5,157
2021	5,157
2022	5,157
years after 2022	13,783

Tax liabilities

NN Leven, together with certain of its subsidiaries, 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 2017 amounts to EUR 28,043 (2016: EUR 17,789 receivable).

Notes to the Consolidated annual accounts continued

35 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.

Unit-linked products in the Netherlands
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 Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) 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 and 2010, NN Leven reached agreements with consumer protection organisations to offer compensation to unit-linked policyholders. The agreements with the consumer protection organisations are not binding to policyholders, and consequently, do not prevent individual policyholders from initiating legal proceedings against NN Leven.

On 29 April 2015, the European Court of Justice issued its ruling on preliminary questions submitted by the District Court in Rotterdam, upon request of parties, including NN Leven, to obtain clarity on principal legal questions with respect to cost transparency 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.

In 2013 'Vereniging Woekerpolis.nl', and in 2017 'Vereniging Consumentenbond' and 'Wakkerpolis', all associations representing the interests of NN policyholders, individually initiated so-called 'collective actions' against NN Leven. These claims have been rejected by NN Leven and NN Leven defends itself in these legal proceedings.

'Vereniging Woekerpolis.nl' requested the District Court in Rotterdam to declare that NN Leven sold products which are defective in various respects. 'Vereniging Woekerpolis.nl' alleges that NN Leven failed to meet the required level of transparency regarding cost charges and other product characteristics, failed to warn policyholders of certain product related risks, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to differences in geometric versus arithmetic returns and that certain general terms and conditions regarding costs were unfair. On 19 July 2017, the District Court in Rotterdam rejected all claims of 'Vereniging Woekerpolis.nl' and ruled that NN Leven has generally provided sufficient information on costs and premiums. 'Vereniging Woekerpolis.nl' has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court in Rotterdam.

The claims from 'Vereniging Consumentenbond' and 'Wakkerpolis' are based on similar grounds as presented in the collective action initiated by 'Vereniging Woekerpolis.nl'.

The claim from 'Wakkerpolis' primarily concentrates on the recovery of initial costs for policyholders and refers to a ruling of the Financial Services Complaints Board (the 'KiFiD') in an individual case against NN Leven. In this case, the KiFiD's Dispute Committee and Committee of Appeal ruled that there is no contractual basis for charging initial costs and that the insurer is obliged to warn against the leverage and capital consumption effect. In its ruling of 22 June 2017, the Appeals Committee concluded that NN Leven, at the time of selling the unit-linked insurance product, should have provided more information to this individual customer than was prescribed by the laws and regulations applicable at that time. In the ruling in the collective action initiated by 'Vereniging Woekerpolis.nl', the District Court in Rotterdam reached a different conclusion than the Appeals Committee of the KiFiD. The Court's judgment is in line with NN Leven's view, that the provision of information needs to be assessed against the laws and regulations and norms applicable at the time of concluding the unit-linked insurance policy.

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 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

Notes to the Consolidated annual accounts continued

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) the insurer owed the customer a duty of care which the insurer has breached, (e) the insurer failed to warn of the risk of not realising the projected policy values, (f) the policy conditions were unfair, or (g) the costs charged or the risk premium had no contractual basis. 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. The timing of reaching any finality in last instance on these pending legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

Rulings or announcements made by courts 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 such subsidiaries 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 portfolio composition, product features, terms and conditions 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.

The book of policies of NN Leven 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 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.

36 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**	**2017**	**2016**
REI Investment I B.V.	The Hague, the Netherlands	89.6%	88.9%
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%	96.6%
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%
Private Debt Investments B.V.[1]	The Hague, the Netherlands	100%	100%

1 Mittelstand Senior Debt Investment B.V. was renamed to Private Debt Investments B.V. as per 6 March 2018.

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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. 2017	2016
REI Belgium Warande B.V.	The Hague, 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.	Madrid, Spain	100%	100%
REI Vitoria Boulevard S.L.	Vitoria-Gasteiz, Spain	100%	100%
REI Spain Logistics S.L.U.	Madrid, Spain	100%	100%
REI Henares Logistics S.L.	Madrid, Spain	100%	100%
REI Madrid Logistics S.L.U.	Madrid, Spain	100%	100%
REI Denmark Copenhagen ApS	Copenhagen, Denmark	100%	100%
REI Denmark Solvgade Holding A/S	Copenhagen, Denmark	100%	100%
REI Denmark Solvgade A/S	Copenhagen, Denmark	100%	100%
Bodio 1 S.R.L.	Milan, Italy		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%
REI 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%	100%
Brie Logistique S.A.S.	Paris, France	100%	100%
Chelles S.A.S.	Paris, France	100%	100%
Les Arpajons S.A.S.	Paris, France	100%	100%
Logistique Portefeuille S.A.S.	Paris, France	100%	100%
Marolles 91 S.A.S.	Paris, France	100%	100%
France Campus Acrueil S.N.C.	Paris, France	100%	
France Campus Bagneux S.N.C.	Paris, France	99%	
France Campus Holding S.A.S.	Paris, France	99%	
France Campus Levallois S.N.C.	Paris, France	100%	
INS Holding Levallois S.A.S.	Paris, France	100%	
REI Poland Jantar sp. z o.o.	Warsaw, Poland	100%	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.

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37 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, equity and loan 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.

The investments in loan instruments of structured entities relate to loans secured by mortgages classified as unsecured loans that are not originated or managed by NN Leven for an amount of EUR 521 million (2016: not applicable).

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

38 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 Insurance Personeel B.V.: reference is made to Note 22 'Staff expenses'
- Transactions with NN Group concerning the payment of taxes as NN Group heads the fiscal unity. Reference is made to Note 34 'Contingent liabilities and commitments'
- Transactions relating to the remuneration of board members. Reference is made to Note 39 '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
- Transactions relating the sale of the mortgage portfolios of EUR 244 million from NN Leven to NN Bank N.V.
- Transactions relating the sale of the mortgage portfolios of EUR 329 million in Q3 and EUR 323 million in Q4 through NN Bank N.V. to Delta Lloyd Levensverzekering.
- The derivatives transactions are conducted mainly via NNIF. The unrealised revaluations of derivatives recognised in the result of NN Leven for the 2017 financial year amount to EUR 445 million (2016: EUR 212 million)

On 31 August 2017 the shares of Nationale-Nederlanden Premium Pension Institution B.V. ('NN PPI') were transferred from NN Investment Partners International Holdings B.V. to NN Leven. This entity is NN branded and all asset management and other services are provided by NN Group entities on an arm's length basis. NN Leven has no financial interest in the pension schemes that are executed by NN PPI.

Reinsurance activities through NN Re

The results of the insurance activities of the Czech Republic branch are fully reinsured through NN Re.

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Given that the Czech branch reported a positive result of EUR 21.3 million (2016: EUR 12.9 million), an expense of EUR 21.1 million (2016: EUR 12.8 million) under the reinsurance contract is recognised in the result of NN Leven. The difference of EUR 0.2 million (2016: EUR 0.1 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 1,073 million (2016: EUR 1,080 million).

Income and expenses from NN Leven recharged to NN Group companies

	Parent company		Other group companies			Total
	2017	2016	2017	2016	2017	2016
Expenses		4	13,225	15,803	13,225	15,807
Investment income		106	766,104		766,104	106
Income and expenses from NN Leven recharged to NN Group companies	**0**	**110**	**779,329**	**15,803**	**779,329**	**15,913**

Income and expenses from NN Group companies recharged to NN Leven

	Parent company		Other group companies			Total
	2017	2016	2017	2016	2017	2016
Expenses	38,512	35,633	219,964	304,976	258,476	340,609
Investment income			143,336	1,400,641	143,336	1,400,641
Income and expenses from NN Group companies recharged to NN Leven	**38,512**	**35,633**	**363,300**	**1,705,617**	**401,812**	**1,741,250**

Financial assets and liabilities with related parties

	Parent company		Other group companies			Total
	2017	2016	2017	2016	2017	2016
Financial assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives			2,313,601	2,922,747	2,313,601	2,922,747
Other assets	1,076,069	860,265	1,017	191	1,077,086	860,456
Financial assets	**1,076,069**	**860,265**	**2,314,618**	**2,922,938**	**3,390,687**	**3,783,203**
Financial liabilities						
Subordinated loan	600,000	600,000			600,000	600,000
Other borrowed funds			3,538	271,346	3,538	271,346
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives			714,802	426,966	714,802	426,966
Other liabilities	2	112	1,083,612	1,092,646	1,083,614	1,092,758
Financial liabilities	**600,002**	**600,112**	**1,801,952**	**1,790,958**	**2,401,954**	**2,391,070**

The receivables from related parties amounts to EUR 2,491 million as at 31 December 2017 (2016: EUR 2,820 million) which is not due in one year. These amounts relate to participating interests over which significant influence can be exercised by NN Leven.

Notes to the Consolidated annual accounts continued

39 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

	2017[3]	2016
Fixed compensation:		
– base salary	1,792	1,673
– pension costs[1]	172	128
– individual saving allowance[1]	380	325
Variable compensation:		
– upfront cash	241	190
– upfront shares	241	190
– deferred cash	225	175
– deferred shares	225	175
Other benefits	197	207
Fixed and variable compensation[2]	**3,473**	**3,063**

1 The pension costs consist of an amount of employer contribution (EUR 172 thousand) and an individual savings allowance (EUR 380 thousand, which is 31.6% of the amount of base salary above EUR 103,317).
2 Over 2017 the Management Board was responsible for both NN Leven and Delta Lloyd Levensverzekering. Consequently 23% of the costs relate to Delta Lloyd Levensverzekering.
3 Reference is made to Composition of the Boards during 2017 on page 4.

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. During 2017 new members of the Management Board were appointed and resigned due to the integration with Delta Lloyd. As per the date of integration the Management Board is responsible for both NN Leven and Delta Lloyd Levensverzekering. As per the date of appointment the Management Board members hold remunerated positions within the new combined organisation. The related remuneration costs are allocated within NN Leven and not allocated to Delta Lloyd Levensverzekering.

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 (2017: EUR 3,473 thousand), includes all variable remuneration related to the performance year 2017. 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 2017 and therefore included in 'Total expenses' in 2017, relating to the fixed expenses of 2017 and the vesting of variable remuneration of earlier performance years, is EUR 2,937 thousand (2016: EUR 2,746 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.

Notes to the Consolidated annual accounts continued

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2017	2016	2017	2016	2017	2016
Management Board members[1]	931	618	5.3%	4.9%	22	46
Supervisory Board members		660		5.2%		83
Loans and advances to key management personnel	**931**	**1,278**			**22**	**129**

1 The increase of the loans and advances of the Management Board members relate to new appointed members of the Management Board.

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 2017 was EUR 22 thousand (2016: EUR 129 thousand).

40 Other events

Dividend distribution

In March 2018, NN Leven made a dividend distribution of EUR 175 million from the Other reserves to its shareholder NN Nederland. The solvency ratio per year end 2017 has not been adjusted for this dividend payment.

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41 Risk management

Introduction

Accepting risk is integral to the business model across insurance and asset management 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'.

Unless otherwise stated, the amounts are in millions of euros.

NN Leven's approach to risk management is based on the following main components:

- **Risk management structure and governance systems:** NN Leven's risk management structure and governance systems follow the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Leven's risk management.
- **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, hereafter, 'MB', is responsible for defining, installing and monitoring the risk management organisation in order to ensure its control systems are effective.

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

The MB is responsible for the role and functioning of the risk management system, supervised by the Supervisory Board. While the MB retains responsibility for risk management, it has delegated certain responsibilities to committees which are responsible for day-to-day risk and finance related management and the overall strategic direction of NN Leven, including the structure and operation of the risk management and control systems.

Chief Executive Officer and Chief Risk Officer

The Chief Executive Officer ('CEO'), the chairman of the MB, 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 the organisation
- 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
- Supporting and challenging the commercial departments in their decision-making with regards 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 MB in relation to risk management

Notes to the Consolidated annual accounts continued

Three lines of defence concept

- The three lines of defence concept, 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 MB, ratified by the Supervisory Board and cascaded throughout NN Leven.
- First line of defence: The CEO of NN Leven and other MB members (excluding the CRO) have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their business. They underwrite (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both 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 and challenge 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 and challenging 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 based on an integral approach.

Operating Model

NN Leven may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) Business Plan and as long as they are consistent with the internal management and risk/ control 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 all relevant information to the relevant Board members and Support Function Head(s) at Head Office. Particularly when NN Leven wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Leven's financial position and/or reputation may be materially impacted.

The CEO is responsible for:

- The financial performance, as well as the business and operational activities, and as such the risk and control, in their respective areas
- The execution in these areas of any strategies that conform 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 Group's values
- Sustainability of NN Leven in the long term
- Sharing best practices across NN Group

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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Risk Management Function
The CRO has a functional reporting line to the NN Group CRO. Risk governance and frameworks, as well as internal and external risk reporting, is supported by the Enterprise Risk Management (ERM) team. Specialised Financial Risk Management and Operational Risk Management teams to provide extra emphasis to the management of those risk types.

Other Key Functions in risk management structure
The Model Governance and Model Validation Function
The model governance and validation function aims to ensure that the models are fit for their intended purpose. Models and their disclosed metrics are approved by one of the two NN Leven Model Committees[1] and where appropriate by the NN Group Model Committee, depending on materiality. The findings of the model validation function are also regularly reported to the NN Leven Model Committees. These committees are responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Leven. Furthermore, the model validation function carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than a certain pre-set materiality thresholds require approval from either the Group CRO and Group CFO or the NN Group Management Board.

Model validation is not a one-off assessment of a model, but an ongoing process whereby the reliability of the model is verified at different stages during its lifecycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a yearly planning discussed and agreed with model development. It is not only verification of the mathematics and/or statistics of the model but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process encompasses a mix of evidence assessment, process verification and outcome analysis.

The validation cycle is based on a five-year period. This means that at least once every five years a model in scope will independently be validated. In general, the (re)validation frequency relates to the relative materiality of the models in scope.

The Compliance Function
To effectively manage Business Conduct Risk, the MB has a Compliance Function headed by Head of Legal & Compliance with delegated responsibility for day-to-day management of the Compliance Function. The Compliance function is positioned independently from the business it supervises. This independent position is – amongst others – warranted by independent reporting, unrestricted access to senior management as well as structural, periodic meetings with the CEO and CRO. Within NN Leven's broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate integrity-related rules, regulations and laws for the effective management of Business conduct risk; proactively work with and advise the business to manage Business conduct risk throughout our products' life cycle and our business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defense to detect, communicate, manage and to report on Business conduct risks
- Support NN Leven's strategy by establishing clear roles and responsibilities to help embed good business and employee conduct practices throughout the business by using a risk-based approach to align business outcomes with NN Leven 's risk appetite
- Deepen the culture of integrity by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on Business conduct risk

The MB appoints a Compliance Officer (CO). The CO hierarchically reports to the Head of Legal & Compliance. The CO has direct and unrestricted access to the CEO and has a functional line to the Chief Compliance Officer of NN Group. The Head of Legal & Compliance reports hierarchically to the CEO and functionally to the General Counsel of NN Group.

The Actuarial Function
The primary objective of the Actuarial Function is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This contributes to an enhanced perception of customers, regulators and investors alike of the financial solidity of NN Leven.

[1] NN Leven has two different Model Committees in place: a Model Committee for Pricing & Valuation models and a Model Committee for Risk models.

Notes to the Consolidated annual accounts continued

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

- Understand and advocate the rules, regulations and laws for effective management of the calculation process of technical provisions, underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- 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 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 Internal Audit Function

The internal audit function is internally outsourced to Corporate Audit Services (CAS). CAS is the internal audit department within NN Group, is an independent assurance function and its responsibilities are established by the Management Board of NN Group and approved by the Audit Committee of the NN Group Supervisory Board, under the ultimate responsibility of this Supervisory Board. CAS independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures. CAS is an essential part of the governance structure. On a day-to-day basis the General Manager of CAS reports to the CEO of NN Group.

CAS keeps in close contact with supervisors and regulators as well as with the external auditor via regular meetings in which current (audit) issues are discussed as well as internal and external developments. CAS also exchanges information like risk assessments and relevant (audit) reports.

The manager and staff of CAS are authorised to:

- Obtain without delay, from managers within NN Leven, any significant incident concerning NN Leven's operations including but not limited to security, reputation and/or compliance with regulations and procedures
- Obtain without delay, from responsible managers within NN Leven, a copy of all letters and reports received from external review agencies (e.g. external auditor, supervisors, regulators and other agencies providing assurance related services)
- Have free, full, unrestricted and unfettered access at any time deemed appropriate to all NN Leven departments, offices, activities, books, accounts, records, files and information. CAS must respect the confidentiality of (personal) information acquired
- Require all NN Leven staff and business management to supply such information and explanations, as may be needed for the performance of assessments, within a reasonable period of time
- Allocate resources, set frequencies, select subjects, determine scope of work and apply appropriate techniques required to accomplish the CAS's objectives
- Obtain the necessary assistance of personnel in various departments/offices of NN Leven where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside NN Leven. CAS should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed.

Risk Management System

The risk management system is not a sequential process but a dynamic and integrated system. The system comprises of three important and interrelated components:

- A risk control cycle, embedded in
- An appropriate organisation, with
- A comprehensive risk appetite framework

The business environment exposes NN Leven to inherent risks and obligations. As such, the environment determines the playing field and rules on which to calibrate all risk management activities. These activities are carried out within NN Leven's risk appetite and framework.

Every employee has a role in identifying risk in their area of responsibility and the role of the management is to decide how to manage risk. It is paramount to know which risks we take and why, to be aware of large existing and emerging risks and to ensure an adequate return for the risk assumed in the business.

Notes to the Consolidated annual accounts continued

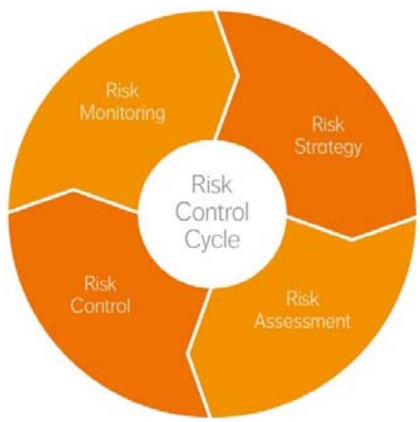
With risk management, we do not try to predict the future but instead prepare pro-actively for a wide range of possibilities.

When assessing and managing risks, we work systematically, 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.

Risk control cycle

NN Leven's risk control cycle consists of four steps. The 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 cycle, enables realisation of business objectives through ensuring NN Leven operates within the risk appetite.



Risk Strategy

Risk Taxonomy

NN Leven has defined and categorised its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy as outlined below. The risk taxonomy consists of approximately 50 main risk types clustered in six risk classes. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

Risk class	Description	Main risk mitigating 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 sells	Product Approval & Review Process, Limit structure, 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

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Risk appetite framework
Risk appetite is the key link between strategy, NN Leven's capital plan and regular risk management as part of Business Plan execution. Accordingly, NN Leven's risk appetite, and the corresponding risk tolerances (limits and thresholds) as derived from the same, is established in conjunction with the business strategy, both aligned to the overall ambitions.

The Risk Appetite Statements define how NN Leven weighs strategic decisions and communicates its strategy to key stakeholders and the CEO, the COO and the Group CEO with respect to risk taking. The statements are not hard limits, but inform risk tolerances, contributing to avoiding unwanted or excessive risk taking, and aim to optimise use of capital. Risk tolerances are the qualitative and quantitative boundaries (limits and thresholds) around risk taking, consistent with the risk appetite statements.

NN Leven expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into nine statements, relevant risk tolerances , controls and reporting.

The three key risk appetite statements are:

Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Strong Balance Sheet (Running the business - financially)	We would like to limit our loss of own funds after a 1-in-20 year event[2] and do not want to be a forced seller of assets when markets are distressed.[3]
Sound Business Performance (Running the business - operationally)	We conduct our business with the NN Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

Risk limits
The above Strong Balance sheet risk appetite statement is translated into quantitative risk limits pertaining to basic own funds (Solvency II capital), and - where necessary - additional interest rate risk limits. NN Leven reports regularly internally on its risk profile compared to applicable risk appetite and risk limits.

Additionally, NN Group has defined tolerances for sensitivities of the Solvency II ratio which are subject to disclosure for year-end 2017. NN Leven contributes to this exposure and any material changes in these sensitivities will be discussed with NN Group. If necessary mitigating actions will be taken.

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 board or committee who has approved them. NN Leven's risk policy framework is fully consistent with NN Group's Policy Framework.

Risk Assessment & Control
Risk assessments are regularly performed throughout NN Leven. For market, counterparty default and underwriting risk, NN Leven's internal and associated models are leading in risk assessments/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 the '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.

[2] NN Leven maintains an OFaR limit which is monitored and reported monthly.
[3] Additionally, NN Leven has a risk appetite of 10%-pt for the interest rate Solvency II sensitivities and 15%-pt for all the investment risk sensitivities which are subject to disclosure for year-end 2017.

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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.

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 a global list of asset classes in which may be invested is maintained. NN Leven 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
Business conduct, operations and continuity & security risks and related second order potential reputation impact are monitored in their mutual relationship as non-financial risk. Non-financial risks are identified, assessed, mitigated, monitored and reported in the overall risk-control cycle within NN Leven. Key non-financial risks are included into the quarterly risk reporting.

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 the management boards. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Risk Reporting
On a regular basis, the MB and the Supervisory Board of NN Leven are presented with an own funds – Solvency Capital Requirement Report and an Enterprise Risk Management Report. The first report aims to provide an overview of the quarterly Solvency II capital position. The latter report is to provide one consistent, holistic overview of the key risks of NN Leven. It focuses on comparing current risk levels to our risk appetite, provides action points from a Risk function perspective, and aims to encourage forward looking risk management. It builds on the following quarterly reports:

- Risk reports (e.g. Interest rate risk report, Insurance and Financial Risk Report)
- Liquidity Report
- Own Funds/SCR report

In the Own Funds/SCR report process NN Leven calculates the Solvency II ratio sensitivities assessing the changes in various scenarios for both eligible own funds and SCR. The size and type of the shocks applied for each sensitivity is decided by the Group.

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.

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Risk Profile

The Solvency II ratio is a key indicator of the risk profile of NN Leven. The ratio is defined as Eligible Own Funds (EOF) divided by the Solvency Capital Requirement (SCR). As at 31 December 2017, the ratio stood at 217%.

	2017	2016
Eligible Own Funds (EOF)	7,670	7,645
Solvency Capital Requirement (SCR)	3,540	3,771
Solvency II ratio (EOF/SCR)	217%	203%

NN Leven uses a Partial Internal Model (PIM) approved by the DNB to measure SCR.

Solvency Capital Requirement based on the Partial Internal Model

The SCR constitutes a risk based capital buffer, which is calculated based on actual risks on the balance sheet. Under Solvency II the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one-year period. The Solvency II capital requirements are based on the approved Partial Internal Model. The capital model is named as such due to the fact that either an Internal Model or the Standard Formula is used to calculate the capital requirements. 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 NN Leven 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 Solvency Capital Requirement as at 31 December 2017 and 31 December 2016:

	2017	2016
Market Risk	2,663	2,776
Counterparty Default Risk	36	217
Non-Market Risk	3,097	3,244
Diversification market – non-market risks	-1,434	-1,616
Total BSCR	**4,362**	**4,621**
Business operations and continuity & security risk	325	329
Other	-98	-50
Solvency II SCR	**4,589**	**4,900**
LACDT	-1,049	-1,129
Total SCR	**3,540**	**3,771**

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2017 are presented in detail below. Along with the Solvency II Capital Requirement, every quarter, NN Leven calculates the sensitivities for Solvency II ratio under various scenarios, by assessing the changes for both eligible own funds and the SCR. Each quarter, the stress level and type of scenarios are decided upon by the NN Group Management Board.

For the calculation of the Solvency II ratio sensitivities, the SCR is recalculated based on BSCR and Business operations and continuity & security risk. The other components of the SCR are kept constant.

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:

Market, counterparty default and liquidity risk

- Market risk: Market risk is the risk of potential losses due to adverse movements in financial market variables. Market risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk and (v) foreign exchange risk.
- Counterparty Default risk: Counterparty Default risk is the risk of potential losses due to unexpected default or deterioration in the credit rating of NN Leven's counterparties and debtors.
- 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. This risk is not part of the SCR Partial Internal Model.

Notes to the Consolidated annual accounts continued

Non-Market risk
- Insurance risk: Insurance risk is the risk related to the events insured by NN Leven and comprise actuarial and underwriting risks like Life risk (mortality, longevity) and Morbidity risk which result from the pricing and acceptance of insurance contracts.
- Business risk: Business risk is the risk related to the management and development of the insurance portfolio, but exclude risks directly connected to insured events. These risks occur because of internal, industry, regulatory/political, or wider market factors. Also included is policyholder behaviour risks and expense risk.

Non-Financial Risk
- Business conduct risk: Business conduct risk is the risks related to unethical or irresponsible corporate behaviour, inappropriate employee behaviour and customer suitability of products
- Business operations risk: risks related to inadequate or failed internal processes, including information technology and communication systems
- Business continuity & security risk: risks of accidents or external events impacting continuation or security of (people or assets in) our business operations.

Types of accounts
The balance sheet of NN Leven consists of two different accounts: the general account and the separate account business.

General account
The general account is where an insurer deposits premiums from policies it underwrites and from which it funds day-to-day operations of the business.

Separate account
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. The separate account businesses are those in which the policyholder bears the majority of the market and credit risk.

- The account value has decreased from over EUR 8.6 billion in 2015 to EUR 3.3 billion in 2017. The decrease in account value is mainly explained by the amount transferred from the separate account to the general account (EUR 3.2 billion). Furthermore, lower interest rates increased the value of the fixed income assets.
- Businesses in the separate account category is the group pension business for which certain guarantees are provided, and other separate account business, primarily the unit-linked business. Some unit-linked policies include a guarantee on the performance of specific underlying funds. The value of this guarantee is sensitive to interest rates, movements in the underlying funds and the volatility of those funds. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. 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. The risk that the present value of future fees is affected by market movements of the underlying policyholder funds is not hedged. NN Leven determines eligible own funds for the market of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

However, in this note no distinction will be made in the risks of these accounts.

Market Risk
Market risk comprises the risks related to the impact of changes in various financial markets indicators on NN Leven's balance sheet.

Market risks are taken in pursuit of returns for the benefit of customers and shareholders. These returns are used to fulfil policyholder obligations with any surplus return benefitting the group and its shareholders. Accordingly, optimisation within the risk appetite is paramount to generate returns for both policyholder and shareholder. In general, market risks are managed through a well-diversified portfolio under a number of relevant policies within clearly defined and monitored limits and with the possibility of reducing downside risk through various hedging programmes.

Notes to the Consolidated annual accounts continued

	2017	2016
Interest Rate Risk	1,605	1,253
Equity Risk	1,438	1,497
Spread Risk	2,026	1,863
Real Estate Risk	914	805
FX Risk	218	96
Inflation Risk	51	53
Basis Risk[1]	27	
Concentration Risk		
Diversification Market Risk	-3,616	-2,791
Market Risk[2]	**2,663**	**2,776**

1 Basis risk is taken in the diversification between the market risks in 2017. In 2016 basis risk ad EUR 57 was taken in the diversification between market, and counterparty default risk
2 The market risk SCR of 2016 has been restated to reflect the inclusion of basis risk

The table below sets out NN Leven's asset class values as at 31 December 2017 and 2016. 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.

Investment assets

	Market value 2017	% of total 2017	Market value 2016	% of total 2016
Fixed income	**62,334**	**84%**	**65,673**	**85%**
Government bonds	33,200	45%	36,656	48%
Government loans	666	1%	642	1%
Financial bonds	2,624	4%	2,387	3%
Financial loans	1,546	2%	1,009	1%
Corporate bonds	6,661	9%	6,433	8%
Corporate loans	2,787	4%	3,598	5%
Asset Backed Securities	1,620	2%	2,246	3%
Mortgages[1]	13,172	18%	12,620	16%
Other Retail Loans	58	0%	82	0%
Non-Fixed income	**11,649**	**16%**	**11,376**	**15%**
Common & Preferred Stock	2,888	4%	3,106	4%
Private Equity	836	1%	880	1%
Real Estate	6,188	8%	5,612	7%
Mutual Funds (Money market funds excluded)[3]	1,737	2%	1,779	2%
Money Market Instruments (Money market funds included)[2]	**148**	**0%**	**94**	**0%**
Total Investments	**74,131**	**100%**	**77,143**	**100%**

1 Mortgages are valued at amortised cost
2 The forward commitments are included from a risk point of view as in last year
3 Money market mutual funds are included in the Money Market Instrument
In 2017 the forward commitments (ad EUR 652) are included from a risk point of view and Q-Park has been sold.

Notes to the Consolidated annual accounts continued

As presented in the table, several key developments in the portfolio have occurred over the course of 2017. NN Leven continued to shift investments from low yielding asset classes to asset classes with an attractive risk return profile. In particular:

- The market value of the total portfolio decreased by approximately EUR 3 billion. This is caused by higher interest rates which mainly impacted the government bond portfolio with approximately – EUR 1.3 billion.
- Another important driver is that the 2016 figures include the pre investments for the GB exits which were funded by operating leverage. The GB exits took actually place in January 2017. Without the pre investments the total 2016 market value of the portfolio would be – EUR 1.4 billion lower.
- A shift from government bonds to financial bonds, corporate bonds, and mortgages in line with the SAA
- The increase in financial loans is caused by the shift of CRE loans from corporate loans to financial loans.
- The real estate portfolio increased due to a higher market valuation of the portfolio and additional investments
- The equities markets increased during 2017, however the equity exposure decreased as this portfolio is partly reduced in line with the SAA
- The lending portfolio shows a decrease despite the shift in allocation towards lending according to the SAA. This is caused by a significant outflow due to repayments.
- Reductions in exposures to asset-backed securities are in line with the SAA.

Equity risk

Equity risk is defined as the possibility of having losses in Solvency II own funds due to adverse changes in the level of the equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options, that are sensitive to equity prices. From a Solvency II Balance sheet perspective, equity investments provide up-side return potential. However from a risk perspective return on capital is unfavourable.

Risk profile

The table below sets out the market value of NN Leven's equity assets as at 31 December 2017 and 2016.

	2017	**2016**
Common & Preferred Stock	2,888	3,106
Private Equity	836	880
Mutual Funds (Money market funds excluded)	1,737	1,777
Total	**5,461**	**5,763**

NN Leven is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds. Equity assets increased mainly driven by favourable market developments in 2017, however the equity exposure decreased as this portfolio is partly reduced in line with the SAA.

Compared to last year, the private equity stake in Q-Park has been sold as there was no fit with the strategy. The Topaz fund is gradually being phased out as the manager has stopped their third party business. NN Leven accepted a public offer from Unilever to sell the outstanding 6% and 7% cumulative preference shares in Unilever N.V.

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 under relevant investment mandates. There is no natural hedge for equity risk on the liability side of the balance sheet, but from time to time NN Leven protects the downside risk of the equity portfolio by buying put options and other hedge instruments.

NN Leven monitors the sensitivity of the Solvency II ratio to changes in equity prices on a quarterly basis.

Real estate risk

Real estate risk is defined as the possibility of having losses in Solvency II own funds due to adverse changes in the level of real estate returns related to rental prices, required investor yield and/or other factors. Exposure to real estate risk arises from direct or indirect asset positions that are sensitive to real estate returns. With the long-term nature of the liabilities of NN Leven, illiquid assets such as real estate can play an important role in the strategic allocation.

Notes to the Consolidated annual accounts continued

Risk profile
NN Leven's real estate exposure increased from EUR 5,742 million as at 31 December 2016 to EUR 6,188 million as at 31 December 2017. Real estate assets are presented including forward commitments. The amount is adjusted with the participation of 89.6% in REI Investment I B.V.

The real estate portfolio increased due to an increase in market value of the portfolio and additional investments.

NN Leven has two different categories of real estate: (i) investments in real estate funds or real estate directly owned and (ii) investments in buildings occupied by NN Leven. Several of the real estate funds owned by NN Leven include leverage, and therefore the actual real estate exposure 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 2017 and 2016, respectively. Real estate is valued at fair value. Fair value revaluations for 84% of the real estate portfolio directly affect the IFRS result before tax.

Real estate assets by sector

	Revalued through P&L 2017	Not revalued through P&L 2017	Revalued through P&L 2016	Not revalued through P&L 2016
Residential	19%	4%	5%	6%
Office	11%	1%	13%	1%
Retail	36%	4%	42%	4%
Industrial	15%	7%	15%	5%
Other	2%	1%	3%	6%
Total	**83%**	**17%**	**78%**	**22%**

The portfolio has been changed from Retail and Office to Residential because of the purchase of Residential in favour of Office and Retail.

Risk mitigation
Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement
NN Leven monitors the sensitivity of the Solvency II ratio to changes in the value of real estate on a quarterly basis.

Interest rate risk
Interest rate risk is defined as the possibility of having losses in the Solvency II own funds due to adverse changes in the level or shape of the risk free interest rate curve used for discounting assets, liabilities and cash flows.

Exposure to interest rate risk arises from direct or indirect asset or liability positions that are sensitive to changes in this risk-free interest rate curve. NN Leven's Partial Internal Model's SCR does not include the change in value of the risk margin due to interest rate shocks.

Risk profile
As shown in the 'Solvency Capital Requirements' table above, the Interest rate risk SCR of NN Leven has increased from EUR 1,253 million in 2016 to EUR 1,605 million in 2017. This increase is primarily due to the additional fixed income investments (mainly mortgages) and interest rate swaps portfolio restructuring towards longer durations. This was partially offset by the effect of higher interest rates which lowers the SCR.

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 2016.

Notes to the Consolidated annual accounts continued

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

Maturities	2017	2016
0-1	-2,624	-2,528
1-2	-2,947	-2,885
2-3	-2,856	-2,889
3-5	-5,652	-6,348
5-10	-14,030	-13,275
10-20	-23,417	-22,496
20-30	-15,829	-15,427
30+	-17,286	-16,654
Total	-84,641	-82,502

1 The 'minus' sign in the table means cash outflow from NN Leven to the policyholders, agents, intermediaries, and other expense related outflow
2 The undiscounted cash flows of 2016 include two entities: NN Leven and NN Insurance Services NV NL. The latter does not exist anymore and is not included in the 2017 figures.

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 EUR denominated liabilities have a significant amount of long-term liability cash flows (about one third beyond 20 years, the point at which extrapolation to the UFR begins), which relates primarily to the pension business.

Risk mitigation

The interest rate position indicates to what extent the expected liability cash flows can be covered by the expected asset cash flows. The NN Leven's interest rate risk management focuses on matching asset and liability cash flows as much as possible. NN Leven hedges its economic interest rate position by investing in long-term bonds and interest rate swaps matching liability maturities. The remaining interest rate gap may be, from time to time, further reduced through purchases of receiver swaps and swaptions.

Risk measurement

For the purpose of discounting EUR dominated asset cash flows, NN Leven uses a market 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 regulations, NN Leven extrapolates the EUR swap curve from the 20 year last liquid point onwards to the Ultimate Forward Rate (UFR). The sensitivity of SCR 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 solvency II ratio decreases when the interest rate reduces or UFR decreases. At the end of 2017, the interest rate curve was higher compared with the end of 2016 while the UFR level remained unchanged at 4.2%. This change had a positive effect on the solvency II ratio of NN Leven, in line with the interest parallel shock +50bps sensitivity result.

The sensitivity of the solvency II ratio to changes in interest rates is monitored on a quarterly basis.

Solvency II ratio sensitivities for interest rate comprises a set of shocks, each of them is calculated independently as a standalone scenario: a parallel shift of the discount curve, a steepening scenario for the interest rate used to discount asset cash flows after the last liquid point and a change of the ultimate forward rate.

The SCR does not include the change in value of the risk margin due to interest rate shocks.

At the end of 2017, the UFR used in the calculation of the technical provisions under Solvency II is set at 4.2% and is used for reporting the Q4 2017 results. In March 2017, EIOPA published an updated methodology to derive the UFR. In line with the updated methodology, the calculated value of the UFR was 3.65%. Annual changes to the UFR will be nil or 15 bps and therefore the UFR decreased from 4.2% to 4.05% as of January 2018.

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 assets in scope, as listed below.

For the quantification of the credit spread risk, for the SCR calculation, NN Leven assumes no change to the VOLA on the liability side of the balance sheet after a shock-event, but instead reflects the illiquidity of liabilities in the asset shocks to ensure appropriate solvency capital requirements. This 'Dynamic VOLA' approach is approved by DNB, in particular to ensure appropriate risk incentives on asset allocation decisions. The main asset classes in scope of the credit spread risk module are government and corporate bonds, mortgages and loans.

Notes to the Consolidated annual accounts continued

Risk profile

As shown in the 'Solvency Capital Requirements' table above, the credit spread risk SCR of NN Leven has increased from EUR 1,863 million in 2016 to EUR 2,026 million in 2017. This increase is primarily due to additional investments in mortgages. Also a model change has been made during 2017 where the loans instruments are reallocated from the scope of counterparty default risk module to credit spread risk module to follow the valuation methodology for loans. This was partially offset by decreasing fixed income asset valuation driven by higher interest rates, partly compensated by tightening government and corporate credit spreads. The table below sets out the market value of NN Leven's fixed-income bonds which are subject to credit spread risk EOF by type of issuer at 31 December 2017 and 2016, respectively.

Fixed-income bonds by type of issuer

	Market value		Percentage	
	2017	**2016**	**2017**	**2016**
Government Bonds	33,200	36,656	75%	77%
Manufacturing	2,940	2,926	7%	6%
Finance and Insurance	2,624	2,387	6%	5%
Asset Backed Securities	1,620	2,246	4%	5%
Utilities	1,012	934	2%	2%
Information	971	994	2%	2%
Transportation and Warehousing	434	363	1%	1%
Mining, Quarrying and Oil and Gas Extraction	217	224	0%	0%
Other	1,087	992	2%	2%
Total	**44,105**	**47,722**	**100%**	**100%**

The table below sets out the market value of NN Leven's assets invested in government bonds by country and maturity.

Market value government bond exposures (2017)

		Market value of government bond 2017 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 2017**
Germany	AAA	108	9	6	25	1,053	3,329	3,098	-	7,628
Netherlands	AAA	29	46	1	281	741	2,652	2,259	-	6,009
France	AA	-	-	-	1	38	1,011	2,030	3,655	6,735
Austria	AA+	-	77	128	342	1,346	700	609	616	3,818
Belgium	AA-	-	8	120	349	375	1,322	1,538	-	3,712
Finland	AA+	-	45	152	40	281	55	581	-	1,154
Spain	BBB+	-	-	-	-	105	408	363	-	876
Italy	BBB	-	-	-	-	208	491	-	-	699
European Union[2]	AAA	-	-	4	12	148	140	-	-	304
United Kingdom	AA	-	-	-	172	-	166	-	-	338
Poland	A-	-	-	-	-	-	284	-	-	284
Others		-	61	21	308	115	459	679	-	1,643
Total		**137**	**246**	**432**	**1,530**	**4,410**	**11,017**	**11,157**	**4,271**	**33,200**

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.
The market value of the bonds reflects before spread lock forward sales value.

Notes to the Consolidated annual accounts continued

Market value government bond exposures (2016)

		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
Austria	AA+	-	-	81	311	801	794	1,338	651	3,976
Belgium	AA-	-	-	8	125	744	1,356	1,581	-	3,814
Finland	AA+	-	-	47	200	292	57	603	-	1,199
Spain	BBB+	-	-	-	-	104	212	587	-	903
Italy	BBB	-	-	-	-	-	824	-	-	824
European Union [2]	AAA	-	-	-	6	55	127	360	-	548
United Kingdom	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.
The market value of the bonds reflects before spread lock forward sales value.

A combination of Dutch, German and French government bonds where included in the spread lock program during 2017, which implies NN Leven has forward sold the underlying bonds using derivatives These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates.

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.

Market value non-government bond securities (2017)

	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 2017
AAA	11	43	7	89	36	3	312	705	1,206
AA	172	117	130	448	408	230	88	100	1,693
A	318	294	283	758	1,203	80	250	67	3,253
BBB	97	546	206	1,117	2,033	156	-	56	4,211
BB	46	96	136	155	320	8	6	-	767
B	-	-	10	21	13	-	-	-	44
CCC	-	-	2	-	-	30	-	-	32
Total	**644**	**1,096**	**774**	**2,588**	**4,013**	**507**	**656**	**928**	**11,206**

Market value non-government bond securities (2016)

	Market value of non-government bond securities 2016 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	2,056
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	647
B	-	-	66	103	117	-	-	-	286
CCC	6	-	-	-	-		-	-	6
Total	**554**	**618**	**956**	**1,924**	**4,165**	**629**	**812**	**1,408**	**11,066**

Notes to the Consolidated annual accounts continued

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 2017 and 2016, respectively.

Asset-backed securities

	Market value 2017	% of total 2017	Market value 2016	% of total 2016
RMBS	1,382	85%	1,917	85%
Other	238	15%	329	15%
Total	**1,620**	**100%**	**2,246**	**100%**

Risk mitigation

NN Leven aims to maintain a low-risk, well diversified fixed income portfolio. NN Leven has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN Leven has increased its investments in non-listed and own-originated assets. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

In 2016 NN Leven started a spread lock program. The goal of this program is to maintain the spread level of the underlying government bonds to prevent the spread moving into unattractive levels. The entered spread locks reduced the spread exposures on French, Dutch and German bonds. At the end of 2017 the entered spread locks in portfolio have a total face value of EUR 3.7 billion.

Risk measurement

NN Leven has exposure to government and corporate and financial debt, and is exposed to spread changes to these instruments. Furthermore, the volatility adjustment in valuation of liabilities introduces an offset to the valuation changes on the asset side. The Solvency II sensitivities for spread changes entail three possible scenarios – spread widening for AAA rated government bonds, spread widening for non-AAA rated government bonds, and spread widening for corporate bonds. For all scenarios, a parallel widening of the spread curves of +50bps is assumed. There is a corresponding translation of the spread widening on asset valuations on the volatility adjustment in each of the scenarios.

Government bonds shocks are applied to the following asset classes: government bonds, government- linked instruments (sub-sovereigns and supranational). Corporate bonds shocks are applied to the following asset classes: corporate bonds (financials and non-financials), mortgages, covered bonds, subordinated bonds, asset backed securities and loans.

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 SCR 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.

Risk profile

The underlying exposures of the CPD risk (loans) have been moved to the Credit spread risk module as a consequence CPD Type II reports a zero value for the SCR calculation (EUR 155 million in 2016). The CPD Type I decreased from EUR 69 million to EUR 36 million. NN Leven has increased its exposure primarily in to corporate loans during 2017. 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

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.

Notes to the Consolidated annual accounts continued

Risk measurement
The Counterparty Default module comprises two sub-modules:

- CDR Type I: applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated. The underlying model is the Ter Berg model (basis for Standard Formula under Solvency II)
- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated. The underlying model is based on the Basel regulatory model

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated. These two classes form the basis for the respective capital treatment in the counterparty default risk module.

Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Mortgages
For the mortgage portfolio, the required capital is included in the credit spread risk SCR The credit spread risk module captures the behaviour of Own Funds when the valuation of mortgage assets changes with market mortgage rates.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average loan to property indexed value, at NN Leven stands at 81% (2016: 86%), due to the high proportion of interest-only mortgages. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from 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 18% (2016: 19%) at NN Leven at end of 2017.

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[1,2]

	NN Leven	
	2017	**2016**
Performing mortgage loans	12,169	11,457
Non-performing mortgage loans	68	110
Total[3]	**12,237**	**11,567**

1 There exists non-performing loans that are not past due (and therefore not part of the past due table below).
2 Risk figures and -parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Leven.
3 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due. So there exists non-performing loans that are not past due (and therefore not part of the past due table below)

Aging analysis (past due, including non-performing): NN Leven mortgage portfolio, outstanding

	NN Leven	
	2017	**2016**
Past due for 1–30 days	66	86
Past due for 31–60 days	39	46
Past due for 61–90 days	22	39
Past due for > 90 days	43	77
Total	**170**	**248**

Notes to the Consolidated annual accounts continued

Collateral on mortgage loans

	NN Leven	
	2017	**2016**
Carrying value	12,237	11,567
Indexed collateral value of real estate	16,688	14,916
Saving held[1]	589	612
NHG guarantee value[2]	2,176	1,901
Total cover value + NHG guarantee capped carrying value[3]	12,114	11,338
Net exposure	**123**	**229**

1 Savings held includes life policies and investment policies
2 The NHG guarantee value follows an annuity scheme and is not corrected for the 10% own risk (on the granted NHG claim)
3 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 SCR of NN Leven.

Risk measurement

The SCR for Own account for foreign exchange risk increased EUR 95 million, to EUR 218 million at year end 2017. This increase is primarily due to the revaluation of the Korean Dassan investment .

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 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

Notes to the Consolidated annual accounts continued

NN Leven defines three levels of Liquidity Management:

1. Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk
2. Long-term liquidity management considers business conditions, in which market liquidity risk materialises
3. Stress liquidity management looks at the company's ability to respond to a potential crisis situation

Two types of liquidity crisis events can be distinguished: a market event and an NN Leven specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. The Treasury function at NN Leven is responsible for Liquidity Management.

A liquidity limit is in place at NN Leven.

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 can meet immediate obligations. Accordingly, NN Leven does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available.

Non-market Risk

The non-market risks are split in:

- Insurance risks: these 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 risks: these 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. 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. 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.

Risk profile

The table below presents the non-market risk SCR composition at the end of 2016 and at the end of 2017 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

	2017	**2016**
Insurance Risk	2,705	2,825
Business Risk	1,130	1,200
Diversification Non-Market Risk	-738	-781
Non-Market Risk	**3,097**	**3,244**

Insurance Risk

Insurance risk is the risk that the future insurance claims and other contractual benefits cannot be covered by premiums, policy fees and/or investment income or that insurance liabilities are not sufficient because claims and benefits might differ from the assumptions used in determining the best estimate liability.

Risk profile

	2017	**2016**
Mortality (including longevity)	2,705	2,824
Morbidity	32	19
Diversification Insurance Risk	-32	-18
Insurance Risk	**2,705**	**2,825**

Notes to the Consolidated annual accounts continued

The SCR for insurance risk is mostly driven by mortality risk, in particular longevity risk.

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 like better living conditions, improved health care and medical breakthrough. 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 businesses, 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.

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. In addition, insurance risks are managed through concentration and exposure limits and through reinsurance to reduce the own fund volatility.

In 2017 NN Leven has entered into an index-based longevity hedge transaction with reinsurance firm Hannover Re with a notional of EUR 100, leading to a Solvency II capital relief of about EUR 36 before diversification. This transaction is designed to reduce NN's exposure to future mortality improvements in the Netherlands. When future longevity improvements are stronger than currently expected, NN Leven will receive a payment under the hedge. Therefore, the deal provides some reduction for the risk that our pension policyholders live longer than expected.

Retention limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics.

Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Leven.

Risk measurement
Given the long-term nature of the liability portfolio, the capital requirements underlying insurance risk are sensitive to interest rates due to the discounting impact. The EUR interest rate curve is higher at the end of 2017 compared to the end of last year resulting in a decrease of the total insurance risk. The mortality hedge enhances this effect. Also the Volatility Adjustment decreased from 13 bps to 4 bps in 2017, partially offsetting the impact of the increase in interest rates. Minor updates of models and assumptions also contribute to this change.

Business Risk
Business risks include risks related to the management and development of the insurance portfolio risk, policyholder behaviour risks, persistency risk and expense risks. These risks occur because of internal, industry, regulatory/political, or wider market factors.

Risk profile
Business risk capital requirements NN Leven 31 December 2017

	2017	2016
Persistency and calamity	171	229
Expense	1,092	1,150
Diversification Business Risk	-133	-179
Business Risk	**1,130**	**1,200**

Persistency risk decreased slightly particularly due to model and assumption changes and partially and also the changes in the interest rate curve, which partially offset by the decrease in Volatility Adjustment.

Total administrative expenses for NN Leven in 2017 amounted to EUR 401 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

Notes to the Consolidated annual accounts continued

risk relates primarily to the fixed part of NN Leven's expenses, and is the risk that future actual expenses per policy exceed the expenses assumed per policy.

The majority of the expense risk is driven by expense level risk.

A significant portion of the fixed expense risk is incurred in the closed block operations, where NN Leven is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase. Furthermore, the valuation of the Leven 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 risks – such as persistency and premium risk - are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in-force policies is assessed at least annually.

As part of its strategy, NN Leven has put several programmes in place to own and improve the customer experience. These programmes 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.

Ongoing initiatives are in place to manage expense risk throughout NN Leven where company targets are in place to reduce expenses, thus, lowering expense risk going forward. These initiatives seek to variables expenses to the underlying contracts in place. This is particularly relevant for the closed-block business that can only reduce in number of contracts.

Besides the already described mitigating actions, proper pricing, underwriting, claims management, and diversification are also risk mitigating actions for business risk risks.

Non-Financial Risk

Non-financial risk includes business operations and continuity & security risk and business conduct risk as described below.

Business operations and continuity & security risk

Risk profile

Business operations and continuity & security risks are 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 business operations risk management areas covered within NN Leven are:

- Operational control risk: the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities
- Operational execution risk: the risk of human errors during (transaction) processing
- Financial accounting risk: the risk of human errors during general ledger / risk systems processing and subsequent financial reporting
- Information (technology) risk (including cyber-risk): the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (cybercrime) or internal causes
- Operational change risk: the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results
- Outsourcing risk: the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner
- Continuity and Legal risk: the risk that emerging laws and regulations, agreements, claims, regulatory inquiries or disclosures potentially result in damage to NN Leven's brand and reputation, legal or regulatory sanctions or liability resulting in financial loss
- External fraud risk: the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law.

Notes to the Consolidated annual accounts continued

The business continuity & security risk management areas covered within NN Leven are:

- Continuity risk: the risk of primary business processes being discontinued for a period beyond the maximum outage time
- Personal & physical security risk: the risk of criminal acts or environmental threats that could endanger NN Leven employees' safety, NN's assets (including physically stored data/information) or NN Leven's offices

Risk mitigation

Non-financial 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 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 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. The exposure of NN Leven to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable 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 risks and controls.

Risk measurement

NN Leven's SCR for operational risk was EUR 320 million and EUR 323 million as at 31 December 2017 and 2016, respectively. The SCR is calculated based on the standard formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Leven risks.

Business conduct risk

Risk profile

Through NN Leven's retirement services, insurance, investments and banking products, NN Leven is committed to help 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 (business conduct risk). All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. NN Leven continuously enhances its business conduct risk management program to ensure that NN Leven complies with international standards and laws.

Risk mitigation

NN Leven separates business conduct risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, NN Leven has also 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 entertainment, anti-bribery, customer suitability, conflicts of interest and confidential and inside information, 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 continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated.

Notes to the Consolidated annual accounts continued

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 the impacts on IFRS net result for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity	Description
Interest rate risk	Measured by parallel upward and downward shift of 50 basis points in interest rates.
Equity risk	Measured by the maximum loss between a 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 policies.
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 and for all real estate re-valued through P&L.
Mortality (Including Longevity) Morbidity P&C	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.

The table below sets out various market and insurance risk impacts of sensitivities for IFRS net result.

		2017	2016
	Interest Rate Upward Shock	-18	
	Interest Rate Downward Shock	1	36
	Equity	-276	-281
	Equity	-3	82
Market risk and credit risk	Real estate	-300	-279
	FX	-34	-42
	Counterparty default	-68	-70
	Mortality (including longevity)	-10	-13
Insurance Risk	Morbidity	-15	-9
	P&C		

Sensitivities of IFRS net result

As at 31 December 2017, the equity risk primarily relates to the Own account equity holdings, the hedging of the separate account pension business and fee income from NN Leven's investment management business. 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.

The real estate sensitivity primarily increased due to higher real estate prices increasing the exposure. The equity up sensitivity mainly changed due to a higher IFRS-sensitivity for this shock in the separate account book. Note that the separate account IFRS equity sensitivity is quite volatile, since the separate account is managed on a fair value basis.

Notes to the Consolidated annual accounts continued

42 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 starts from the statutory solvency and applies adjustments to create a (more) economic balance sheet. The dynamic forward looking perspective (also referred to as capital creation) considers how the statutory 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. This leads to monitoring and managing on a long term and short term perspective. The long term perspective includes possible events that can impact our liquidity position within a period of one year. It includes (i) liquid assets – in some cases subject to a haircut- divided by (ii) the expected outflow including lapses in a severe stress scenario. The short term perspective is based on a one-day horizon and includes (i) cash divided by (ii) a one-day shock in cash outflow because of collateral calls.

Main events in 2017

The following dividends were paid during 2017: in March, June and September an amount of EUR 150 million each. In June a special dividend of EUR 300 million was paid, and in December EUR 175 million. So total dividend from NN Leven amounted to EUR 925 million.

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

EIOPA announced that it will reduce the UFR as from 1 January 2018 with 15 bps.

Other events

In March 2018, NN Leven made a dividend distribution of EUR 175 million from the Other reserves to its shareholder NN Nederland. The solvency ratio per year end 2017 has not been adjusted for this dividend payment.

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 2017 with a Solvency II ratio of 217% based on the PIM.

Notes to the Consolidated annual accounts continued

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

	2017	2016
Total equity	15,203	15,895
Elimination of deferred acquisition costs and other intangible assets	-244	-253
Valuation differences on assets	1,639	1,555
Valuation differences on liabilities, including insurance and investment contracts	-12,254	-13,490
Deferred tax effect on valuation differences	2,703	3,030
Excess assets/liabilities	**7,047**	**6,737**
Qualifying subordinated debt	1,137	1,155
Foreseeable dividends and distributions	-31	-20
Basic Own Funds	**8,153**	**7,872**
Non-eligible Own Funds	483	227
Eligible Own Funds to cover Solvency Capital Requirements (a)	**7,670**	**7,645**
Solvency Capital Requirements (b)	**3,540**	**3,771**
NN Leven Solvency II ratio (a/b)[1]	**217%**	**203%**

1 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the Partial Internal Model

Development solvency during 2017

The increase in the Solvency II ratio reflects ongoing capital generation and positive market impacts offset by dividend payments to the parent company.

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) 2017[1]	Fair value (dirty) 2016[1]
4.52% (quarterly payments)	2014	450 million	Perpetual	30 May 2019	Tier 1 (after grandfathering)	**463 million**	469 million
5.6% (annual payments)	2014	600 million	10 February 2044	10 February 2024	Tier 2 (after grandfathering)	**674 million**	686 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 (restricted) 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:

Notes to the Consolidated annual accounts continued

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

Eligible own funds to cover Solvency Capital Requirement

2017	**Available Own Funds**	**Eligibility restriction**	**Non-eligible Own Funds**	**Eligible Own Funds**
Tier 1	**6,465**			**6,465**
Of which:				
- unrestricted Tier 1	6,002			6,002
- restricted Tier 1	463	Less than 20% Tier 1		463
Tier 2 + Tier 3	**1,688**	**Less than 50% SCR**	**483**	**1,205**
Tier 2	674			674
Tier 3	1,014	Less than 15% SCR	483	531
Total	**8,153**		**483**	**7,670**

2016	**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

On 31 December 2017 the SCR based on the PIM is EUR 3,540 million. The application of the restrictions can be found in the table above. The amount of Eligible Own Funds to cover the SCR is EUR 7,670 million, leading to a Solvency II ratio of 217%.

The capital position of NN Leven met all regulatory solvency requirements following the Solvency II directive throughout 2017.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Leven for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Management Board on 23 March 2018. 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 to adopt the Consolidated annual accounts, propose amendments and then adopt the Consolidated annual accounts after a normal due process.

Rotterdam, 23 March 2018

The Management Board

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

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

R.F.M. (Robin) Buijs

The Supervisory Board

D.E. (Dorothee) van Vredenburch, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the General Meeting, dated 1 June 2018.

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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	2017	2016
Assets			
Intangible assets		7,175	9,078
Investments in group companies and associates:			
– investments in group companies	2	5,816,741	4,969,717
– bonds issued by and receivables from group companies	3	679,128	615,135
– other associates		18,036	18,600
Other financial investments:			
– bonds and other fixed-income securities		43,493,997	46,378,523
– shares, units of participation and other variable-income securities	4	4,164,633	4,414,082
– interest in investment pools	5	282,945	234,142
– receivables from mortgages		13,172,290	12,620,249
– receivables from other loans	6	5,726,252	6,301,108
– deposits with credit institutions	7	218,743	217,060
Deposits with insurers		151	143
Derivatives	8	2,660,884	3,030,669
Investments for risk of policyholders	9	12,868,777	15,001,771
Reinsurance contracts	14	1,151,150	1,157,953
Receivables:			
– receivables from policyholders		304,463	171,126
– receivables from intermediaries		4,094	1,883
– receivables from reinsurance		3,000	19,778
– other receivables	10	1,106,758	941,897
– income tax receivable			7,834
Other assets:			
– other assets		923	1,326
– cash and cash equivalents	11	41,442	65,132
Accrued assets:			
– accrued interest	12	916,548	950,287
– deferred acquisition costs		236,636	243,480
– other accrued assets		779	1,533
Total assets		**92,875,545**	**97,372,506**

References relate to the notes starting on page 100. 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	2017	2016
Equity	13		
Share capital		22,689	22,689
Share premium		3,228,030	3,228,030
Legal reserves		994,999	686,306
Revaluation reserve		6,882,068	8,436,876
Other reserves		2,382,974	2,533,152
Unappropriated profit		1,691,926	987,465
Shareholder's equity		**15,202,686**	**15,894,518**
Undated subordinated loan		450,000	450,000
Total shareholder's equity		**15,652,686**	**16,344,518**
Liabilities			
Subordinated debt		600,000	600,000
Technical provisions:	14		
– technical provisions for life insurance		47,730,451	47,051,218
– technical provisions for profit sharing and rebates		10,559,614	11,816,540
– other technical provisions		243,836	234,695
Technical provisions for insurance for risk of policyholders		12,146,310	13,657,407
Derivatives	15	1,229,404	744,661
Deferred tax liabilities	16	1,689,104	2,237,465
Other provisions	17	666,850	716,594
Deposits from reinsurers		1,072,741	1,079,824
Liabilities:			
– liabilities from direct insurance		881,883	760,979
– other bonds and private loans	18	206,078	1,956,721
– other liabilities	19	70,868	108,719
– income tax payable		39,894	
Accrued liabilities	20	85,826	63,165
Total liabilities		**77,222,859**	**81,027,988**
Total equity and liabilities		**92,875,545**	**97,372,506**

References relate to the notes starting on page 100. 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	2017	2016
Premiums written – net of reinsurance			
Gross premiums		2,289,104	2,386,682
Reinsurance and retrocession premiums		-161,503	-165,578
Investment income	21		
Result from associates		547,788	465,228
Income from other investments		2,098,165	2,173,243
Realised gains on investments		956,410	248,771
Unrealised gains on investments	21	485,605	1,146,116
Net other technical income	22	212,064	348,309
Benefits net of reinsurance			
Gross benefits		4,550,219	4,427,089
Reinsurance recoveries		-142,446	-149,924
Change in technical provision for life insurance	23		
– gross change		-1,461,812	-1,713,621
– change in reinsurers' share		-212	5
– other technical provisions		9,141	5,824
Profit sharing and rebates	23	491,945	1,623,484
Operating expenses			
Acquisition costs		57,847	74,856
Management and staff expenses, equipment deprecation	24	405,016	410,227
Commissions and profit sharing received from reinsurers		2,872	-2,177
Investment expenses			
Management expenses and interest	25	108,262	122,374
Impairments on investments	21	57,854	62,652
Realised losses on investments	21	11,803	
Unrealised losses on investments	21	80,473	28,633
Other net technical expenses	26	300,465	590,288
Investment income allocated to non-technical account		844,693	527,203
Result of life insurance technical account		1,111,513	595,858
Non-technical account			
Result of life insurance technical account		1,111,513	595,858
Allocated investment income transferred from technical account		844,693	527,203
Other income		92	10,894
Result from ordinary activities before taxation		1,956,298	1,133,955
Tax on result from ordinary activities	27	-264,372	-146,490
Result from ordinary activities after taxation		1,691,926	987,465

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 at 1 January 2017	**22,689**	**3,228,030**	**686,306**	**8,436,876**	**3,520,617**	**450,000**	**16,344,518**
Revaluations			115,913	760,956			876,869
Changes in cash flow hedge reserve				-648,289			-648,289
ABS reserve amortisation				27,749			27,749
Deferred profit sharing liability				-1,681,693			-1,681,693
Transfer to legal reserves			196,383		-196,383		
Dividend from associates			-1,700		1,700		
Other changes			-1,903		-3,536		-5,439
Exchange rate differences				-13,531	831		-12,700
Total amount recognised directly in equity (other comprehensive income)			**308,693**	**-1,554,808**	**-197,388**		**-1,443,503**
Dividend paid					-940,255		-940,255
Net result					1,691,926		1,691,926
Balance at 31 December 2017	**22,689**	**3,228,030**	**994,999**	**6,882,068**	**4,074,900**	**450,000**	**15,652,686**

	Share capital	Share premium	Legal reserves	Revaluation reserve	Other reserves [1]	Undated subordinated loan	Total
Balance at 1 January 2016	**22,689**	**3,228,030**	**413,307**	**6,726,927**	**3,440,391**	**450,000**	**14,281,344**
Revaluations			-8,384	1,985,651			1,977,267
Changes in cash flow hedge reserve				413,308			413,308
ABS reserve amortisation				23,527			23,527
Deferred profit sharing liability				-700,683			-700,683
Transfer to legal reserves			283,963		-283,963		
Dividend from associates			-2,300		2,300		
Other changes			-280		-10,330		-10,610
Exchange rate differences				-11,854	9		-11,845
Total amount recognised directly in equity (other comprehensive income)			**272,999**	**1,709,949**	**-291,984**		**1,690,964**
Dividend paid					-615,255		-615,255
Net result					987,465		987,465
Balance at 31 December 2016	**22,689**	**3,228,030**	**686,306**	**8,436,876**	**3,520,617**	**450,000**	**16,344,518**

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

All the changes are net of tax.

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.

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. Reference is made to the list filed by NN Group N.V.

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

	2017	2016
REI Investment I B.V.	4,938,888	4,037,483
Private Equity Investments II B.V.	425,744	603,316
Korea Investment Fund B.V.	239,060	132,580
Private Equity Investments B.V.	207,136	195,590
Other	5,913	748
Investments in group companies	**5,816,741**	**4,969,717**

Changes in Investments in group companies

	2017	2016
Investments in group companies - opening balance	4,969,717	4,083,901
Investments	656,066	752,770
Transfer from/to other group companies	4,342	
Result of group companies	544,311	462,921
Dividend	-473,608	-322,075
Revaluations	115,913	-7,800
Investments in group companies - closing balance	**5,816,741**	**4,969,717**
Breakdown of balance sheet value:		
Cost	4,600,723	3,940,315
Cumulative revaluations	1,216,018	1,029,402
Investments in group companies	**5,816,741**	**4,969,717**

Notes to the Parent company annual accounts continued

3 Bonds issues by and receivables from group companies

	2017	2016
REI Investment I B.V.		157,449
Private Equity Investments B.V.	100,428	45,301
Private Debt Investments B.V.	545,500	376,635
Infrastructure Debt Investments B.V.	33,200	35,750
Bonds issued by and receivables from group companies	**679,128**	**615,135**

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

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

	2017	2016
Shares, units of participation and other variable-income securities - opening balance	4,414,082	4,359,713
Investments	285,281	337,310
Disposals	-984,190	-377,915
Revaluations	114,140	89,376
Impairments	-53,159	-62,652
Realised result	401,450	79,707
Exchange rate differences	-12,971	-11,456
Other changes		-1
Shares, units of participation and other variable-income securities - closing balance	**4,164,633**	**4,414,082**
Breakdown of balance sheet value:		
Cost	2,876,874	3,187,673
Cumulative revaluations	1,287,759	1,226,409
Shares, units of participation and other variable-income securities	**4,164,633**	**4,414,082**
Listed	3,370,388	3,634,202
Unlisted	794,245	779,880
Shares, units of participation and other variable-income securities	**4,164,633**	**4,414,082**

5 Interest in investment pools

Changes in Interest in investment pools

	2017	2016
Interest in investment pools - opening balance	234,142	130,905
Investments	78,056	103,705
Disposals	-23,528	
Revaluations	-6,192	-559
Changes in current-account balances		86
Exchange rate differences	467	5
Interest in investment pools - closing balance	**282,945**	**234,142**

Notes to the Parent company annual accounts continued

6 Receivables from other loans

Changes in Receivables from other loans

	2017	2016
Receivables from other loans - opening balance	6,312,394	6,883,071
Investments	872,383	1,343,698
Disposals	-317,312	-445,869
Redemptions	-1,162,427	-1,495,327
Transfer from/to other assets		-424
Amortisation	30,700	26,414
Realised result	254	5,027
Other changes	-2,150	-4,196
Receivables from other loans – before Provision for doubtful debts	**5,733,842**	**6,312,394**
Provision for doubtful debts	-7,590	-11,286
Receivables from other loans - closing balance	**5,726,252**	**6,301,108**

Changes in Provision for doubtful debts

	2017	2016
Provision for doubtful debts - opening balance	11,286	14,305
Allocation	-1,477	1,343
Withdrawal	-2,219	-4,362
Provision for doubtful debts - closing balance	**7,590**	**11,286**

The fair value of the receivables from other loans (including mortgages and deposits with credit institutions) amount to EUR 20,761 million (2016: EUR 20,704 million).

7 Deposits with credit institutions

Changes in Deposits with credit institutions

	2017	2016
Deposits with credit institutions - opening balance	217,060	210,370
Investments	1,687	7,043
Disposals	-4	-353
Deposits with credit institutions - closing balance	**218,743**	**217,060**

8 Derivatives

Changes in Derivatives

	2017	2016
Derivatives - opening balance	3,030,669	3,057,161
Investments	38,302	
Disposals	-40,768	-1,213,011
Revaluations	-367,319	1,186,519
Derivatives – closing balance	**2,660,884**	**3,030,669**
Breakdown of balance sheet value		
Cost	133,860	130,054
Cumulative revaluations	2,527,024	2,900,615
Derivatives	**2,660,884**	**3,030,669**

Notes to the Parent company annual accounts continued

9 Investments for risk of policyholders

Changes in Investments for risk of policyholders

	2017	2016
Investments for risk of policyholders - opening balance	15,001,771	18,012,435
Investments	1,934,979	1,689,111
Disposals	-4,369,577	-6,016,185
Revaluations	-486,234	605,944
Realised result	780,469	366,531
Exchange rate differences	-19,268	-10
Other changes	26,637	343,945
Investments for risk of policyholders - closing balance	**12,868,777**	**15,001,771**

10 Other receivables

Other receivables

	2017	2016
Receivables and trade accounts receivable	154,384	281,295
Current-account balance with related parties	952,455	661,018
Other receivables – before Provision for doubtful debts	**1,106,839**	**942,313**
Provision for doubtful debts	-81	-416
Other receivables	**1,106,758**	**941,897**

Changes in Provision for doubtful debts

	2017	2016
Provision for doubtful debts - opening balance	416	77
Additions		339
Withdrawal	-339	
Release	4	
Provision for doubtful debts - closing balance	**81**	**416**

Under ´Receivables and trade accounts receivable´ is an amount of nil (2016: EUR 63 million) non-current.

The current account with related parties includes EUR 952 million (2016: EUR 661 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 38 'Related parties' in the Consolidated annual accounts.

11 Cash and cash equivalents

Cash and cash equivalents

	2017	2016
Bank balances	36,214	43,086
Deposits	5,226	22,044
Cash resources	2	2
Cash and cash equivalents	**41,442**	**65,132**

Notes to the Parent company annual accounts continued

12 Accrued interest

Accrued interest

	2017	2016
Bonds and other fixed-income securities	731,931	772,717
Derivatives	104,576	99,219
Receivables from mortgages	36,423	37,591
Receivables from other loans	43,618	40,760
Accrued interest	**916,548**	**950,287**

13 Equity

Equity

	2017	2016
Share capital	22,689	22,689
Share premium	3,228,030	3,228,030
Legal reserves	994,999	686,306
Revaluation reserve	6,882,068	8,436,876
Other reserves	2,382,974	2,533,152
Unappropriated profit	1,691,926	987,465
Shareholder's equity	**15,202,686**	**15,894,518**
Undated subordinated loan	450,000	450,000
Total equity	**15,652,686**	**16,344,518**

Share capital

	Shares (in number)		Ordinary shares (amount)	
	2017	2016	2017	2016
Authorised share capital	22,689,015	22,689,015	113,445	113,445
Unissued share capital	18,151,212	18,151,212	90,756	90,756
Issued share capital	**4,537,803**	**4,537,803**	**22,689**	**22,689**

Share premium

	2017	2016
Share premium - opening balance	3,228,030	3,228,030
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

	2017	2016
Intangible assets reserve	7,175	9,078
Associates reserve	987,824	677,228
Legal reserves	**994,999**	**686,306**

Changes in Intangible assets reserve

	2017	2016
Intangible assets reserve - opening balance	9,078	9,358
Capitalised costs	1,500	1,300
Amortisation	-3,400	-1,476
Other changes	-3	-104
Intangible assets reserve - closing balance	**7,175**	**9,078**

Notes to the Parent company annual accounts continued

Changes in Share of associates reserve

	2017	2016
Share of associates reserve - opening balance	677,228	403,949
Revaluations	115,913	-8,384
Result for the financial year	196,383	283,963
Dividend received / paid	-1,700	-2,300
Share of associates reserve - closing balance	**987,824**	**677,228**

The presentation of the Associates reserve was changed to better align with NN Group. For this reason the relevant comparative figures for 2016 have been restated.

Revaluation reserve

	2017	2016
Bond revaluation reserve	2,015,682	3,024,010
Share revaluation reserve	1,143,676	1,041,867
Hedge reserve	3,722,710	4,370,999
Revaluation reserve	**6,882,068**	**8,436,876**

All changes are net of taxes.

Changes in Bond revaluation reserve

	2017	2016
Bond revaluation reserve - opening balance	3,024,010	1,791,144
Revaluations	-1,681,693	-700,683
Change on account of deferred profit sharing liability	644,961	1,910,023
Amortisation of ABS bond revaluation	27,749	23,527
Exchange rate differences	655	-1
Bond revaluation reserve - closing balance	**2,015,682**	**3,024,010**

Changes in Share revaluation reserve

	2017	2016
Share revaluation reserve - opening balance	1,041,867	978,092
Revaluations	115,995	75,628
Exchange rate differences	-14,186	-11,853
Share revaluation reserve - closing balance	**1,143,676**	**1,041,867**

Changes in Hedge reserve

	2017	2016
Hedge reserve - opening balance	4,370,999	3,957,691
Revaluations	-648,289	413,308
Hedge reserve - closing balance	**3,722,710**	**4,370,999**

Changes in Other reserves

	2017	2016
Other reserves - opening balance	2,533,152	2,370,564
Transfer of unappropriated profit from previous financial year	987,465	1,069,827
Dividend from associates	1,700	2,300
Withdrawal from legal reserves	-196,383	-283,963
Dividend paid	-940,255	-615,255
Exchange rate differences	831	9
Other changes	-3,536	-10,330
Other reserves - closing balance	**2,382,974**	**2,533,152**

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 shareholder. 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 shareholder. 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

	2017		2016	
Total Shareholder's equity		15,202,686		15,894,518
Share capital	-22,689		-22,689	
– revaluation reserve for bonds	-2,015,682		-3,024,010	
– revaluation reserve for shares	-1,143,676		-1,041,867	
– revaluation reserve for hedge (net)	-3,722,710		-4,370,999	
Legal reserves	-994,999		-686,306	
Total capital subject to claims on account of capital protection		**-7,899,756**		**-9,145,871**
Distributable reserves based on Dutch Civil Code		**7,302,930**		**6,748,647**

Freely distributable capital

	2017		2016	
Solvency requirement under the Financial Supervision Act	3,539,612		3,771,000	
Capital available for financial supervision purposes[1]	7,669,849		7,645,000	
Total freely distributable capital on the basis of the Financial Supervision Act		4,130,237		3,874,000
Total freely distributable capital on the basis of the Civil Code		7,302,930		6,748,647
Total freely distributable capital (lowest of the above values)		**4,130,237**		**3,874,000**

[1] Reference is made to Note 42 'Capital and liquidity management', for the calculation of the capital available for financial supervision purposes.

Internal solvency objectives

During 2017 the commercial target capital was 130% Solvency II required capital.

14 Technical provisions

Technical provisions

	Provision net of reinsurance		Reinsurance contracts		Technical provisions	
	2017	2016	2017	2016	2017	2016
Technical provisions for life insurance net of interest and rebates	47,062,318	46,392,361	585,232	572,767	47,647,550	46,965,128
Unamortised acquisition costs	-211,982	-228,497	-15,306	-10,126	-227,288	-238,623
Unamortised interest rebates	82,901	86,090			82,901	86,090
Technical provisions for life insurance[1]	**46,933,237**	**46,249,954**	**569,926**	**562,641**	**47,503,163**	**46,812,595**
Technical provisions for (deferred) profit sharing and rebates	10,496,095	11,714,218	63,519	102,322	10,559,614	11,816,540
Other technical provisions	243,836	234,695			243,836	234,695
Provision for investment contracts		-15,730		15,730		
Technical provisions for life insurance for risk of policyholders[2]	11,619,257	13,175,290	517,705	477,260	12,136,962	13,652,550
Technical provisions	**69,292,425**	**71,358,427**	**1,151,150**	**1,157,953**	**70,443,575**	**72,516,380**

1 To reconcile the 'Technical provisions' for life insurance EUR 47,503 million (2016: EUR 46,813 million) with the financial statements EUR 47,730 million (2016: EUR 47,051 million) the acquisition costs EUR 227 million (2016: EUR 239 million) have to be added.

2 To reconcile the 'Technical provisions' for life insurance for risk of policyholders EUR 12,137 million (2016: EUR 13,653 million) with the financial statements EUR 12,146 (2016: EUR 13,657 million) the acquisition costs EUR 9 million (2016: EUR 4 million) have to be added.

Notes to the Parent company annual accounts continued

Changes in Technical provisions for life insurance for risk of policyholders

	2017	2016
Technical provisions for life insurance for risk of policyholders - opening balance	13,657,407	15,986,504
Current year provisions	508,538	523,494
Prior year provisions:		
– benefit payments to policyholders	-1,365,123	-1,769,818
– valuation changes for risk of policyholders	995,071	997,302
Exchange rate differences	26,304	112
Other changes[1]	-1,675,887	-2,080,187
Technical provisions for life insurance for risk of policyholders - closing balance	**12,146,310**	**13,657,407**

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

	2017	2016
Unamortised interest rate rebates net of reinsurance - opening balance	-86,090	-61,171
Change during the financial year	-15,546	-32,838
Amortisation of interest rate rebate granted in the financial year	2,017	3,813
Amortisation of interest rate rebates capitalised in previous financial years	16,700	4,113
Exchange rate differences	18	-7
Unamortised interest rate rebates net of reinsurance - closing balance	**-82,901**	**-86,090**

Changes in Other technical provisions

	2017	2016
Other technical provisions - opening balance	234,695	228,871
Allocation	9,546	5,824
Withdrawal	-405	
Other technical provisions - closing balance	**243,836**	**234,695**

Changes in Technical provisions for profit sharing and rebates

	2017	2016
Technical provisions for profit sharing and rebates - opening balance	11,816,540	10,728,236
Valuation changes for risk of policyholders	-327,106	-1,067,356
Allocation of share in unrealised revaluations	-856,549	934,891
Paid up additions	-47,381	-84,902
Interest accrual prior year provisions	301,063	880,013
Allocation of share in surplus interest	-340,400	379,352
Addition/withdrawal through profit and loss account	40,642	52,118
Exchange rate differences	4,620	-9
Other changes	-31,815	-5,803
Technical provisions for profit sharing and rebates - closing balance	**10,559,614**	**11,816,540**

15 Derivatives

	2017	2016
Derivatives - opening balance	744,661	535,901
Disposals	-241,969	-137,295
Revaluations	726,712	346,055
Derivatives – closing balance	**1,229,404**	**744,661**
Breakdown of balance sheet value		
- cost	1,456	1,025
- cumulative revaluation	1,227,948	743,636
Derivatives	**1,229,404**	**744,661**

Notes to the Parent company annual accounts continued

16 Deferred tax liabilities

Changes in Deferred tax liabilities (2017)

	Net liability 2016	Change through equity	Change through Net result	Exchange rate differences and other changes	Net liability 2017
Investments	2,667,295	-546,798	519	-1,464	2,119,552
Financial assets and liabilities at fair value through profit or loss	1,456,855	-216,096			1,240,759
Deferred acquisition costs	54,859		-324	120	54,655
Technical provisions	-1,973,546	211,588	-1,137	-790	-1,763,885
Other	32,002	-1	3,579	2,443	38,023
Deferred tax liabilities	**2,237,465**	**-551,307**	**2,637**	**309**	**1,689,104**
Comprising:					
– deferred tax liabilities	4,211,011				3,452,989
– deferred tax assets	-1,973,546				-1,763,885
Deferred tax liabilities	**2,237,465**				**1,689,104**

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	2,014,091	653,741	-535	-2	2,667,295
Financial assets and liabilities at fair value through profit or loss	1,319,086	137,769			1,456,855
Deferred acquisition costs	53,532		1,328	-1	54,859
Technical provisions	-1,767,032	-234,208	26,864	830	-1,973,546
Other	28,158	1	4,785	-942	32,002
Deferred tax liabilities	**1,647,835**	**557,303**	**32,442**	**-115**	**2,237,465**
Comprising:					
– deferred tax liabilities	3,414,867				4,211,011
– deferred tax assets	-1,767,032				-1,973,546
Deferred tax liabilities	**1,647,835**				**2,237,465**

17 Other provisions

Other provisions

	2017	2016
Provision for investment contracts	646,347	693,975
Restructuring provisions	9,037	13,377
Other	11,466	9,242
Other provisions	**666,850**	**716,594**

18 Other bonds and private loans

Changes in Other bonds and private loans

	2017	2016
Other bonds and private loans - opening balance	1,956,721	2,034,972
Investments	1,200,000	2,050,000
Disposals	-2,950,643	-2,128,251
Other bonds and private loans - closing balance	**206,078**	**1,956,721**

Notes to the Parent company annual accounts continued

Specification of other bonds and private loans

	2017	2016
Loans from related companies[1]	202,555	250,000
Other	3,523	1,706,721
Other bonds and private loans	**206,078**	**1,956,721**

1 The average interest rate on 'Loans from related companies' is -0,355% (2016: -0,320%)

19 Other liabilities

Other liabilities

	2017	2016
Current-account balance with related companies	6,677	9,257
Taxation and social security contributions	43,007	43,889
Securities accounts payable	1,153	28,816
Other	20,031	26,757
Other Liabilities	**70,868**	**108,719**

Current-account balance with related companies

	2017	2016
Other group companies	6,677	9,257
Current-account balance with related companies	**6,677**	**9,257**

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 38 'Related parties' in the Consolidated annual accounts.

20 Accrued liabilities

Accrued liabilities

	2017	2016
Costs payable	3,965	-3,714
Interest payable	81,861	66,879
Accrued liabilities	**85,826**	**63,165**

The maturity of accrued liabilities are one year or shorter.

Notes to the Parent company annual accounts continued

21 Investment income

Investment income

	2017	2016
Investment income	2,645,953	2,638,471
Realised gains on investments	956,410	248,771
Unrealised gains on investments	485,605	1,146,116
Investment expenses: impairments of investments	-57,854	-62,652
Investment expenses: realised losses on investments	-11,803	
Unrealised losses on investments	-80,473	-28,633
Investment Income	**3,937,838**	**3,942,073**

Investment income by category (2017)

2017	Investment income	Unrealised revaluations	Realised revaluations	Impairments	Total
Shares, units of participation and other variable-income securities	138,193		401,450	-53,159	486,484
Derivatives	155,831	122,859			278,690
Interests in investment pools		-6,194			-6,194
Investments in other associates	3,477				3,477
Investments in group companies	544,311				544,311
Investment for risk of policyholders	26,610	350,209	-11,803		365,016
Deposits with credit institutions	20				20
Cash and cash equivalents		12,537			12,537
Bonds issued by and receivables from group companies	20,775				20,775
Bonds and other fixed-income securities	1,081,827	-74,279	553,657	-4,695	1,556,510
Other results from investments	36,580		1,303		37,883
Receivables from other loans	142,589				142,589
Receivables from mortgages	495,740				495,740
Total	**2,645,953**	**405,132**	**944,607**	**-57,854**	**3,937,838**

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**

Commission

The paid and unpaid fees for settling insurance contracts for the year 2017 amounts to EUR 40 million (2016: EUR 39 million).

22 Other net technical income

Other net technical income

	2017	2016
Income from portfolio transfer	28	165
Change in the value of investment units for account and risk of policyholders	199,650	337,151
Other	12,386	10,993
Other net technical income	**212,064**	**348,309**

Notes to the Parent company annual accounts continued

23 Change in technical provision for life insurance

Changes in Technical provisions for life insurance

2017	Gross	Reinsurance	Net of reinsurance
Technical provisions for life insurance	-1,461,812	-212	-1,462,024
Other technical provisions	9,141		9,141
Total	**-1,452,671**	**-212**	**-1,452,883**

2016	Gross	Reinsurance	Net of reinsurance
Technical provisions for life insurance	-1,713,621	5	-1,713,616
Other technical provisions	5,824		5,824
Total	**-1,707,797**	**5**	**-1,707,792**

Forms of result sharing

	2017	2016
Contractual result sharing	463,977	1,603,363
Interest rate rebates	-10,931	-30,972
Result sharing dependent on operating results	38,899	51,093
Result sharing	**491,945**	**1,623,484**

24 Management and staff expenses, equipment depreciation

Management and staff expenses, equipment depreciation

	2017	2016
Management expenses	178,539	169,178
Depreciation and amortisation	3,407	1,507
Staff expenses	235,515	250,095
Recharged to other business units	-12,445	-10,553
Management and staff expenses and equipment and depreciation	**405,016**	**410,227**

For information regarding the average numbers of employees NN Leven reference is made to Note 22 'Staff expenses' in the Consolidated annual accounts.

25 Management expenses and interest expenses

Management expenses and interest expenses

	2017	2016
Management expenses[1]	57,042	81,865
Interest expenses	51,220	40,509
Management expenses and interest expenses	**108,262**	**122,374**

1 Management expenses also include EUR -20 million foreign currency results from technical provisions.

26 Other net technical expenses

Other net technical expenses

	2017	2016
Portfolio transfer expenses	279,508	570,415
Other	20,957	19,873
Other net technical expenses	**300,465**	**590,288**

Notes to the Parent company annual accounts continued

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

	2017	2016
Current taxes	261,722	114,048
Deferred taxes	2,650	32,442
Taxes	**264,372**	**146,490**

Reconciliation of the statutory and effective tax rates

	2017	2016
Result before tax	1,956,298	1,133,955
Associates exemption	-859,093	-544,716
Adjustments to prior periods	-1,224	-2,695
Expenses not deductible for tax purposes to tax purposes	272	4,751
Other income not subject to tax	-32,475	120
Total taxable amount	**1,063,778**	**591,415**
Effective tax amount	**264,372**	**146,490**
Effective tax rate	13.5%	12.9%
Nominal tax amount	**487,499**	**282,454**
Nominal tax rate	24.9%	24.9%

28 Other

Assets not freely disposable

For further explanation of the assets that are not freely disposal reference is made to Note 31 '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 34 'Contingent liabilities and commitments' in the Consolidated annual accounts.

Related parties

For further explanation of the related parties reference is made to Note 38 'Related parties' in the Consolidated annual accounts.

29 Subsequent events

For subsequent events of NN Leven reference is made to Note 40 '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 2017

2017	Linked policies Individual and Group insurance contracts	Total
Investments income allocated to insurance contracts	2,920,760	2,920,760
Less: Interest credited to technical provisions	1,749,128	1,749,128
Profit or loss on interest	**1,171,632**	**1,171,632**
Release of expenses from premiums and technical provisions	255,629	255,629
Operating expenses	428,204	428,204
Profit or loss on expenses	**-172,575**	**-172,575**
Profit or loss on probability rate systems	115,111	115,111
Profit or loss on technical analysis	**115,111**	**115,111**
Total profit or loss on assumptions	**1,114,168**	**1,114,168**
Profit sharing:		
Contractual	-31,123	-31,123
Dependent on operating profits	40,158	40,158
Amortisation of interest rate rebate	-15,847	-15,847
Total amount made available for	**-6,812**	**-6,812**
Profit or loss on assumptions after profit sharing	**1,120,980**	**1,120,980**
Movement in other technical provisions, net of reinsurance	**9,467**	**9,467**
Balance on the technical account	**1,111,513**	**1,111,513**

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Leven for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Management Board on 23 March 2018. 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, 23 March 2018

The Management Board

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

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

R.F.M. (Robin) Buijs

The Supervisory Board

D.E. (Dorothee) van Vredenburch, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the General Meeting, dated 1 June 2018

Independent auditor's report

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Report on the audit of the 2017 annual accounts included in the annual report

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 2017 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of NN Leven as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2017 annual accounts of NN Leven, based in Rotterdam as set out on pages 11 to 114. 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 2017;
2. the following consolidated statements for 2017: the profit and loss account, 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 2017;
2. the parent company profit and loss account for 2017;
3. the parent company statement of changes in equity; and
4. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the annual accounts' section of our report.

We are independent of NN Leven in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Independent auditor's report continued

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

Audit approach

Summary

MATERIALITY
- Materiality of EUR 100 million
- Based on core equity: shareholders' equity minus revaluation reserve (1.3%)

AUDIT SCOPE
- 97% of core equity, 99% of total assets and 98% of profit before tax covered by audit procedures performed by group audit team and by component auditors

KEY AUDIT MATTERS
- Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)
- Unit-linked exposure
- Solvency II capital and risk management disclosures

UNQUALIFIED AUDIT OPINION

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 100 million (2016: EUR 100 million). The materiality is determined with reference to core equity (shareholders equity minus the revaluation reserves) and amounts to 1.3% (2016: 1.4%) of core equity. We continue to 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 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 36). The financial information of the subsidiaries is included in the 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, 99% of total assets and 98% of profit before tax. For the remaining subsidiaries, we

Independent auditor's report continued

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 Management Board and 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.

In comparison to our 2016 audit opinion, we no longer recognise a key audit matter for General IT controls: user access management due to management's actions in 2017 to reduce the risk.

Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)
Description NN Leven has insurance contract liabilities of EUR 71 billion representing 92% 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. 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, 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.

Independent auditor's report continued

KPMG

Valuation of insurance contract liabilities and the Reserve Adequacy Test (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 management's calculation of the liability on current best estimate actuarial assumptions (RAT), including challenge on the appropriateness of the methodology applied to substantiate this calculation. NN Leven reports a change in accounting policy relating to the RAT, applicable as from 1 January 2017. We assessed the supporting documentation for this change in accounting policy.
Our observation Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, acceptably. We also found the related RAT disclosure to be adequate. We refer to Note 14 of the annual accounts. We note that the unrealised revaluations on available for sale investments backing the insurance contract liabilities are recorded in shareholders equity and represent a significant part of the revaluation reserve. To the extent that available for sale investments are being sold, the excess in the reserve adequacy would decrease. If these unrealised revaluations were to be fully realised, the capital gains would only be partly available to shareholders, since a portion of the gains would be required to strengthen the insurance reserves in order to remain adequate. 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. We refer to Note 1.

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 concluded that these cannot be reliably estimated or quantified at this point. We refer to Note 35 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 legal advisor. These procedures took into account the NN Group specific developments, such as the meaning of the verdict of the District Court Rotterdam in

Independent auditor's report continued

Unit-linked exposure

July which we also discussed with the external legal advisors. Our procedures also took into account broader market developments in 2017.

- 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 35 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 2017 balance sheet (for both EU-IFRS and Solvency II), is sufficiently substantiated.

We evaluated the disclosure of the exposure in Note 35, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

Solvency II capital and risk management disclosures

Description

Solvency II information is considered to be an important addition to the information provided on an IFRS basis. We refer to Note 41 of the annual accounts for the disclosures on Risk Management.

The Own Funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics as well as the disclosed sensitivity of the Solvency II ratio 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 (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this 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 Risk Management disclosure to be a key audit matter.

Our response

We obtained an understanding of the company's application and implementation of the 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 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:

Independent auditor's report continued

Solvency II capital and risk management disclosures

- 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 market value balance sheet, 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.

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 market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial and valuation specialists. .
- Verifying the accuracy and completeness of data used to calculate the best estimate liability and SCR.
- 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.
- 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 2017 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. 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.

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR in the Risk Management disclosures are acceptable in the context of the annual accounts.

We also found the Solvency II disclosures to be adequate. We refer to Note 41 of the annual accounts.

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 following 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.

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.

Independent auditor's report continued

The Management Board 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.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the 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 engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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.

A further description of our responsibilities for the audit of the annual accounts is located at the website of the 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants): at: http://www.nba.nl/ENG_oob_01.This description forms part of our independent auditor's report.

Amstelveen, 23 March 2018

KPMG Accountants N.V.

W. Teeuwissen RA

Appropriation of result

Appropriation of result

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. Reference is made to Note 11 'Equity' for the proposed appropriation of result.

Dividend 2017

In 2017, NN Leven paid a 2017 interim cash distribution of EUR 925 million from the Other reserves to its shareholder NN Nederland.

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.

Contact and legal information

Contact us

Nationale-Nederlanden Levensverzekering Maatschappij N.V.
Weena 505
3013 AL Rotterdam

PO Box 796, 3000 AT Rotterdam
The Netherlands
Internet: www.nn.nl
Commercial register of Rotterdam, no. 24042211

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

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.