2021
Annual Report

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

nationale
nederlanden

Annual Report contents

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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 2021 was as follows:

Management Board

Composition as at 31 December 2021

L.M. (Leon) van Riet (1964), CEO and chair

A. (Arun) Sivaramakrishnan (1973), CFO

W.G. (Wilbert) Ouburg (1985), CRO[1]

M.R. (Martijn) Hoogeweegen (1969)

A.G. (Annemieke) Visser-Brons (1970)

Resigned in 2021

J.J. (Hans) Bonsel (1963), CRO[3]

Supervisory Board

Composition as at 31 December 2021

J.L. (Janet) Stuijt (1969), chair

D. (Delfin) Rueda (1964), vice-chair[2]

J.W. (Hans) Schoen (1954)

1 Appointment as from 1 April 2021 by the General Meeting on 30 March 2021.
2 Mr Rueda will step down as from 1 July 2022
3 Resignation as from 1 April 2021 by resignation letter.

NN Group and NN Leven at a glance

NN Group

NN Group N.V. (NN Group) is an international financial services company, active in 19 countries, with a strong presence in a number of European countries and Japan.

Led by our purpose and ambition, guided by our values and brand promise, and driven by our strategic commitments, we are committed to create long-term value for all our stakeholders: customers, shareholders, employees, business partners and society at large.

With all our employees, we provide retirement services, pensions, insurance, investments and banking products to approximately 18 million customers. We are a leading financial services provider in the Netherlands.

We provide our products and services under the following brand names: Nationale-Nederlanden, OHRA, Movir, AZL and BeFrank, as well as via our joint venture, ABN AMRO Verzekeringen, and our partnership with ING Insurance.

In August 2021, we announced the agreement to sell NN Investment Partners (NN IP) to Goldman Sachs Group, Inc. The transaction is expected to be finalised by the end of the first half of 2022.

Our roots lie in the Netherlands, with a rich history that stretches back 175 years. NN Group is listed on Euronext Amsterdam (NN).

Within NN Group's organisational structure, NN Leven is part of the reporting segment Netherlands Life.

NN Leven

NN Leven offers a range of group life and individual life insurance products. Its group life policies are primarily group pension products. 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 asset manager NN IP.

NN Leven's individual life insurance business primarily consists of the closed-book 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), Delta Lloyd Levensverzekering N.V. (Delta Lloyd 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 largest Dutch life insurer measured by gross premium income. In addition, NN Leven offers Defined Contribution (DC) pension products through its subsidiary BeFrank PPI N.V., which is the leading Premium Pension Institution (PPI) in the Netherlands.

NN Leven's business centers 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

Strategy

Our purpose is to help people care for what matters most to them. Because what matters to them matters to us.

Our ambition is to be an industry leader, known for our customer engagement, talented people, and contribution to society. All parts of our business contribute to the delivery of our ambition.

NN Leven is committed to creating long-term value for all our stakeholders. Our strategy aims to address the interests of all stakeholders, which is why we have both financial and non-financial targets. Our five strategic commitments will help us achieve our ambition.

1. Customers and distribution - We see our customers as the starting point of everything we do
2. Products and services - We develop and provide attractive products and services
3. People and organisation - We empower our colleagues to be their best
4. Financial strength - We are financially strong and seek solid long-term returns for shareholders
5. Society - We contribute to the well-being of people and the planet

The goal of NN Leven is to deliver an excellent customer experience, while meeting our operational efficiency ambition. We have a proven track record in reducing costs by improving efficiency whilst at the same time improving client satisfaction. Our ambition is to be the preferred Life and Pension company in the Netherlands. In order to achieve our preferred future, we have defined several strategic priorities that are linked to the five strategic commitments. By means of our Strategic Leadership Agenda (SLA) we ensure that the strategic priorities are rolled-out into all levels of our organisation as employees are being considered as one of the most important pillars of success in achieving our goals.

In 2021, NN Leven reorganised into two Business Lines: Pensions and Services. Pensions focuses on commercial success and profitability with DC pension products, PPI and Term Life covering the total Dutch pension market from SMEs to corporates. Services focuses on efficiency through IT simplification and migrations. Services primarily consists of the closed book operation of the group life portfolios and the individual life portfolios (comprising a range of discontinued products sold prior to 2012).

NN Leven is navigating through turbulent markets and change dynamics. The strategy aims for an effective response to changing dynamics in the Dutch Life and Pension market, given low interest rates, intensified competition in certain segments, regulatory changes, and rising life expectancy.

NN Leven had a strong 2021 in terms of commercial momentum, operating results, operating capital generation and maintaining a resilient solvency ratio. Going forward, NN Leven will continue to focus on delivering on key aspects of its strategy: adapting to the changes in the pension market and the shift to defined contribution, improving customer service, enhancing the effectiveness of our control landscape, operational efficiency to reduce cost levels through actions such as simplifying our IT landscape, optimizing the investment mix on the balance sheet taking into account return and risk considerations, and managing liability risks. Adapting to regulatory change, amidst a complex systems and data landscape, is an important management priority.

Major programs are underway to prepare for the regulatory changes in the pension market and for the implementation of IFRS 17 and IFRS 9 in 2023. As part of ongoing liability risk and balance sheet optimization, at year end 2021, NN Leven concluded a further external longevity reinsurance transaction on EUR approximately 4 billion of liabilities.

Customers and distribution

At NN Leven we see our customers as the starting point of everything we do. We engage with them to ensure we meet their real needs and offer solutions that create long-term value. We use our digital capabilities and leverage our strong distribution footprint in order to further enhance our customer experience.

Our brand promise 'You matter' is not just a slogan; it defines what we do at NN Leven, influencing every department, every employee and every interaction with our customers.

The advisor satisfaction remained at a 7.6. For our Term Life product, the advisor satisfaction is best in class with a score of 7.8. Employer satisfaction increased by 0.1 to 6.7. Since 2021, we measure the pension participant satisfaction level via r-NPS, scoring a -30.

In 2021, NN Leven transformed the Human Capital Planner (HCP) from a dashboard into a data and services platform for employers and their advisors. The HCP now facilitates them with not only relevant management data, in the context of Employee Benefits and Good 'Employership', but also with fitting tools and services. Examples of this are the HCP Generation Scheme Indication Tool, the HCP Pension Barometer and the HCP Pension Pulse. In addition, the data insights have also been improved and expanded, with for example the HCP Sustainability Dashboard.

NN Leven also launched new online tooling for advisors, employers and participants to increase level of comfort and reduce processing time such as automated portal rollout, client-investigation optimisation, bilingual offer output and automated Pension Plus offers, subsequently reducing average processing time.

The new Pension Agreement will bring relevant changes to our customers. Customers increasingly expect from NN Leven thought leadership on broader content driven themes, such as the new Pension framework. Therefore, in 2021 NN Leven continued its effort on solutions to fit these changes.

Products and services

At NN Leven we excel in developing and providing attractive products and services, focused on our customers' needs. Operating with efficiency, agility and speed. To ensure we continue doing so, we will make optimal use of digital and data capabilities.

NN Leven offers the full spectrum of pensions solutions consisting of defined contribution (DC), insured defined benefit (DB) and term life insurance via the NN-label, Premium Pension Institution (PPI) via our specialised label BeFrank, a general pension fund (APF) solution via De Nationale, and pension fund administration and advisory services via AZL.

NN Leven aims to offer true value propositions for a competitive price. We believe that with a combination of pension products, related services and a good customer experience, we will establish a sustainable long-term relationship with our customers.

Report of the Management Board continued

In a fast-changing market, with the new Pension Agreement and a society where the influence of the individual is growing, we are building a company that truly matters to our stakeholders.

In 2021, MoneyView again rewarded our Personal Retirement Plan with five stars, and this was top-rated on the ratio of employer expenses to employee income. The other DC proposition is provided by BeFrank PPI N.V. BeFrank PPI N.V. is the leading PPI in the Netherlands and a fully owned subsidiary of NN Leven.

Despite the ongoing shift towards DC pension plans, we see that Defined Benefit (DB) remains important for some of our customers. NN Leven continues to serve these customers through our DB proposition. In decumulation, DC adds to our guaranteed pension books as mature DC assets are converted to guaranteed direct pension annuities.

Overall, NN Leven offers modern pension solutions in both DB and DC, with and without guarantees. This enables employers or clients to organise their retirement arrangements with a risk profile that meets their current needs. Our product suite consists of a focused set of transparent and competitive pension products, delivered through various IT platforms. In order to streamline our IT landscape, improve effectiveness and achieve our expense reduction ambitions, we will continue to invest in IT simplification initiatives. This is a multi-year programme and executed in close cooperation with the central IT organisation of NN Group. Although requiring significant effort as well as initial investments, once realised, it is expected to bring efficiency gains by creating state-of-the art and more standardised target IT systems, decommissioning legacy systems, removing manual workload and, as well, necessary compensating internal control measures to address certain identified deficiencies in the old systems. These activities also contribute to our readiness for the full implementation of the new accounting standard IFRS 17 Insurance Contracts in 2023. We increasingly employ robotics and apply STP (straight through processing) to improve quality and achieve a higher customer satisfaction at a lower cost. When during this simplification and improvement process, issues are identified, we investigate the root cause(s) of these issue and take action to address them, both in respect of improving data quality and, where appropriate, towards customers.

Important milestones in the simplification exercise in 2021 were the complete decommissioning of four large systems and increased progress on migrations.

For our legacy pension portfolio the focus is on increasing customer satisfaction and cost effectiveness. The aim is to make this closed book portfolio completely paid up and decrease the cost of regulatory change and this is progressing well (~98% of the book is paid up). Achieving significant lower operating costs and rationalization of the remaining administration systems will be realised by automation through applying Robotics, Business Process Management and Smart Scanning. Completing the conversion of the full portfolio to Paid Up and continued focus on in-force management is expected to increase customer satisfaction and help rationalize operational processes. The full conversion is expected to be finalised in 2026.

For the closed book operation of the group life portfolio and the individual life portfolios (comprising a range of discontinued products sold prior to 2012) focus is on reducing expenses in line with the run-off of the portfolio and at the same time improving customer service. Key actions to enable this are migrating policies from legacy to target systems, outsourcing IT and operations, and digitalising processes. In 2021 we migrated more than 225,000 policies from legacy systems to our future proof target platforms in our business line Individual Life Services. In total, more than 2.5 million policies have been migrated to the target systems, which accounts for 81% of the portfolio.

In 2021 we have been nominated for the "Gouden Lotus Awards Hypotheekmarkt" (Golden Lotus Awards mortgage market 2021) as Term Life provider.

The boards of pension funds are actively investigating future proof solutions, leading to potential opportunities. Decision making on a larger scale is not expected before 2023 due to the delay in the legislation on the Pension Agreement. After an intensive tender process on July 7th, 2021, Henkel Pension fund chose NN as buy-out provider (EUR 125 million), being the first pension fund in the Dutch market in 2021 that decided for a buy-out solution.

NN Leven continues to invest in innovative technology solutions. Mijnwaardeoverdracht.nl is the first blockchain solution within NN Leven. The value transfer process of individual pensions is largely automated and digitized. The initiative was developed from an intensive collaboration with Hyfen (the blockchain developer and administrator), APG, PGGM and Blue Sky Group.

In 2021, we also further expanded and optimised our digital online services. Customers and brokers have more (digital) ways to engage with us via the NN-portal and NN-app and provide via these channels Self Service-functionality (for information request, for policy endorsements or claims and in the collections and disbursements). For instance, customers and brokers can now easily view the surrender value of the policy online. Currently 596,000 (35%) individual life customers have a Mijn.nn account.

Overall, although we recognise that much work remains to be done, based on the achievements we have realised in the last few years, we are confident that we will be able to achieve our ambition to deliver an excellent customer experience, while also meeting our expense efficiency ambitions.

People and organisation

At NN Leven, we empower our people to be their best. Together, we want to create a culture aligned with our purpose, values and ambitions, which supports continuous learning, collaboration, and diversity of thinking.

Our values, care, clear, commit, 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 is responsible and accountable for living up to them. Read more on the values in the 'Who we are' section of www.nn-group.com.

Our approach to diversity and inclusion is simple. It is about embracing everyone. Together we build an environment in which people feel welcome, valued, and respected. Free to bring their full selves – regardless of gender, age, background, or sexual orientation.

We invest in attracting, developing, and retaining the best people, with a focus on further developing customer, digital and data capabilities.

Report of the Management Board continued

Employees are encouraged to invest in themselves and in their employment prospects. For example, employees are given training, coaching and internships. To increase economic and job opportunities, we invest in employability, by stimulating our employees to develop and grow. We offer students and graduates the opportunity to gain work experience within our company. We give clear direction about the future strategy so employees and management can anticipate upcoming changes.

In order to increase the employability of our employees, various initiatives have been introduced and continued. The continuation of a resource board and the IT retraining programme MakeItWork are examples of these initiatives. Also, the 'you matter, your potential programme' has been implemented, helping colleagues becoming more aware of their motivations, talents and ambition and know how to convey them. Our Talent Management and Strategic Workforce planning help us in attracting and retaining the right talents. In order to stay fit for the future we continuous invest in our leadership by contributing to the development of the relevant leadership skills and the roll-out a tailormade leadership program focusing on developing High Performing Teams.

In 2021 we simplified our organisational structure by integrating from three Business Lines to two (Pensions and Services). By opting for this structure, we created more focus and reduced overhead. In addition, we reduced the complexity of our organisation by introducing end-to-end value chains and making ourselves more agile. Like everybody NN Leven had to deal with the ongoing impact of Covid-19. 2021 marked the second year of a largely work from home environment. We continued to reach out to our management and employees on a monthly basis to ensure everybody could work from home in a safe way and with the right equipment. We increased communication and we reached out to all employees to make sure we know all their specific needs regarding working from home and maintaining a good work-life-balance. We also conducted specific surveys regarding working from home during Covid-19 to gather feedback from all employees and based on this feedback took measures to facilitate the work from home of our employees. This approach with attention for the specific situation of individual employees, flexibility and tailor-made solutions has been successful.

We see a stable trend in our employee engagement. In 2021, our employee engagement marginally decreased from 7.5 (November 2020) to 7.4 (November 2021). Full attention and extra effort in this Covid-19 pandemic year to the well-being and involvement of our employees contributed positively to our employee engagement score.

At NN Leven the number of employees decreased from 2,517 in 2020 to 2,470 in 2021. Of these employees almost 60% are male and 40% female.

Financial strength

At NN Leven, we maintain a strong balance sheet and create solid financial returns by using our financial strength, scale and by efficiently managing our customers' assets and our own insurance portfolios.

Analysis of results

Amounts in millions of euros	2021	2020
Investment margin	1,055	905
Fees and premium-based revenues	360	356
Technical margin	136	216
Operating income	**1,551**	**1,477**
Administrative expenses	424	397
DAC, amortisation and trail commissions	37	29
Total expenses	**461**	**426**
Operating result	**1,090**	**1,051**
Non-operating items	1,981	702
- of which gains/losses and impairments	1,556	645
- of which revaluations	476	366
- of which market and other impacts	-51	-309
Special items	-16	-72
Result on divestments		
Result before tax	**3,055**	**1,681**
Taxation	447	354
Net result	**2,608**	**1,327**
Minority interests	144	16
Net result attributable to the shareholder of the parent	**2,464**	**1,311**

The full-year 2021 operating result increased to EUR 1,090 million from EUR 1,051 million in 2020. The increase is due to a higher investment margin, partly offset by a lower technical margin and higher administrative expenses. The investment margin for the full-year 2021 includes private equity dividends for a total amount of EUR 94 million, whereas the same period in 2020 included EUR 10 million of such items. Furthermore the investment margin increased due to the shift to higher-yielding assets.

Administrative expenses increased to EUR 424 million from EUR 397 million in2020, reflecting a reclassification of specific expenses from special items to administrative expenses as from 2021. On a comparable basis, administrative expenses decreased compared with 2020, mainly driven by lower staff expenses. The full-year 2021 result before tax increased to EUR 3,055 million compared with EUR 1,681 million in 2020. The increase mainly reflects higher gains/losses on the sale of public equities and government bonds as well as impairments and higher markets and other impacts.

Key figures

Amounts in millions of euros	2021	2020
New sales life insurance (APE)	255	236
DC Assets under Management Total (in EUR billion)	30	25
Value of new business (VNB)	27	14
Administrative expenses	424	397
NN Leven Solvency II ratio[1]	219%	220%

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

New sales (APE) for the full-year 2021 increased to EUR 255 million from EUR 236 million in 2020, mainly driven by a higher volume of group pension contracts.

The value of new business for the full-year 2021 increased to EUR 27 million from EUR 14 million in 2020.

Report of the Management Board continued

Society

At NN Leven we contribute to the well-being of people and the planet. We do business with the future in mind and contribute to a world where people can thrive for many generations to come. We do this by investing our assets responsibly, being a fair taxpayer, managing our direct environmental footprint, and through our activities in the communities where we operate.

NN Leven strives – in its daily actions and decision-making – to strike a balance between financial interest and the impact on our society and the environment. We take our role in society seriously. Activities range from financial education to health and well-being initiatives. These involve raising funds and employees volunteering their time for special projects. For example, NN Leven participated in de Week van het Geld and employees gave job application training to people that have difficulty in entering the labour market.

At NN Leven, focusing on diversity and inclusion is not just about doing the right thing, it's about empowering people by respecting and praising what makes them unique. NN Leven employees are free to truly value their differences in a safe, positive, and nurturing environment. At NN Leven, we care about diversity in the workplace and more broadly in society. We strive to make people feel respected and valued for who they are as individuals and as a group. We want to make sure that our employees feel valued, heard and part of the success of our organisation.

As the largest pension insurer in the Netherlands, NN Leven is continuously looking for innovative solutions to provide (near)retirees with a carefree retirement. In 2021, NN Leven, together with NN Group launched the Research Centre for Longevity Risk in collaboration with the University of Amsterdam (UvA). At the centre, UvA scientists will study the trends in survival rates and life expectancy, and how these are affected by different relevant factors. The research conducted in the centre will contribute to the management of longevity risk, and is vital for governments, policymakers and other stakeholders in the financial sector. It will also help raise awareness about accruing a pension. This is in line with our purpose to help people care for what matters most to them.

Also, in 2021 NN Leven further updated the 'Pensioen Hulp', a tool which provides people insight in their pension. There has been strong interest in this with over 58.000 subscriptions. The 'Pensioen Hulp' is available to both our inactive and active employees target groups. By proactively using the tool we can offer more insight into one's possible pension choices in an earlier stage.

A few other initiatives of NN Leven in 2021:

- Head sponsor "Rotterdamse Zakenvrouw 2021".
- Collaborating with renowned research institutes, for example with Kien Onderzoek, to ensure original and relevant content on the awareness and expectations of the new pension agreement among Dutch employees.
- Providing help with relevant themes such as loneliness, employability and financial problems.
- NN Leven played an active role to improve the insurability of former cancer patients, developing a new sector-wide policy together with the 'Association of Insurers', that improves the medical acceptance of former cancer patients.
- Participation career coach JINC.
- Provide people financial insights with PensioenTV Broadcasts which are available for our inactive and active employees target groups and the society.

In the field of responsible investing, NN Leven wants to invest its customers' assets in a responsible manner. This involves for example active asset management, with environmental and social aspects, good governance integrated in our investment processes, and offering socially responsible investment funds and custom solutions for responsible investments.

To our customers we provide dashboard information showing them the impact of their life cycle investments in terms of CO2 reduction, water savings and waste reduction. Our PPI, BeFrank PPI N.V., is the first pension provider in 2021 offering a CO2 neutral pension. And our life cycle funds comprise of ESG integrated investments.

Risk management

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

Capital and liquidity management

For information on liquidity and financing, reference is made to Note 45 'Capital and liquidity 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 as we can. NN Leven has reached out to all individual customers who purchased unit linked products in the past ('activeren').

NN Leven continues to periodically reach out to groups of selected customers to encourage them to carefully assess their unit-linked products in order to enable them to address their personal situation and offer customers the option to switch to another product or make changes to their policy free of charge. Customers are also entitled to free advice.

As at 31 December 2021, the portfolio of NN Leven comprised approximately 280,000 active unit-linked policies. In a limited number of cases (less than 1,250), NN Leven has 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 38 '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. NN Group includes a non-financial statement in its Report of the Management Board for NN Group as a whole pursuant to the Decree.

Rapportage van het Intern Toezicht 2021

The 'Rapportage van het Intern Toezicht 2021' concerning the Pension Fund Governance on the so called 'rechtstreeks verzekerde regelingen' was approved in the Supervisory Board meeting on 28 March 2022. The report can be found on the website of Nationale-Nederlanden. More information is available in the 'Wie zijn wij?' section of www.nn.nl.

Report of the Management Board continued

Conclusions 2021 and going forward

Since early 2020, the spread of the Covid-19 pandemic has caused significant disruption to society and the economy, impacting NN Leven, its customers, employees and other stakeholders. Financial markets have been impacted by significant volatility and the broader world-wide economy has been significantly impacted by (partial) lockdowns and other social distancing measures. Recurring waves of virus variants caused ongoing disruption in 2021. On the other hand, governments and central banks worldwide have responded to the macroeconomic impact of this crisis with significant aid/stimulus packages and various support measures and there has been positive progress on the vaccination front. The fiscal and monetary stimulus has supported business and consumers and resulted in buoyant financial asset markets. More recently, inflation has become a concern. NN Leven constantly monitors the developments and the (potential) impact on NN Leven.

While the impact of the crisis on society as a whole is significant, also in 2021 the financial impact on NN Leven remained relatively limited. The Covid-19 pandemic continued to test our resilience towards business disruption. We are still able to work successfully from home, and our business continues as usual working remotely and using digital channels.

In 2021, NN Leven was able to maintain its leading position in the Dutch market. We continued our efforts to improve efficiency on current processes and further strengthened our customer focus.

As we move into 2022, we have been deeply concerned by the War in Ukraine, and the threat that it poses to our democracy and safety. Our thoughts are with everyone affected by the war, and we will continue to do our best to help them. The war has fueled international tensions, resulting in market volatility, increases in energy prices and impacting capital flows and global supply chains. In the short term, NN Leven will be able to deal with the potential impact of these adverse developments due to our strong liquidity and solvency position. We do not have business activities in Ukraine or Russia and our direct financial exposure to these countries is limited. We will continue to actively monitor the developments in Ukraine and its implications.

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 its composition and functioning of the Boards. In appointments, all applicable laws and regulations and relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment are taken into account.

For the management boards and supervisory boards of all large entities within the group, NN Group aims to have a gender balance of at least 40% of both women and men. Should the current state and group size of a management board and/or a supervisory board give reason thereto, NN Group may (initially) aim to have a gender balance of at least one third men and at least one third women for such management board and/or supervisory board.

In 2021, the composition of the Management Board did not meet the target, consisting of one female and four male members. Given the fact that the Supervisory Board of NN Leven consists of only three members, the target requires this board to consist of at least one female and one male. In 2021, the target was met and with the intended succession of Delfin Rueda by Annemiek van Melick, following her intended appointment as Executive Board member of NN Group, effective as from 1 July 2022, the composition of the Supervisory Board of NN Leven will continue to meet the target.

NN Group has also set a target to have at least 40% women in senior management positions by 2023. In 2021, these positions included the Management Board of NN Group and managerial positions reporting directly to an NN Group Management Board member. In 2022 NN Group will extend the scope of the target group by including more positions in the Dutch and Insurance International business units to further improve and strengthen the impact of our gender diversity ambition. The target group will therefore be extended to include all managerial positions reporting directly to the business unit CEOs. Talent management, succession planning and the NN Group Statement on Diversity and Inclusion are key instruments in our approach and are part of the Human Capital Development processes of NN Group.

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 of NN Leven 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 2021 Financial Report.

Financial reporting process

As NN Leven is 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 29 May 2019, the general meeting of NN Group reappointed KPMG Accountants N.V. (KPMG) as the external auditor of NN Group for the financial years 2020 through 2022. On 31 May 2019, the general meeting of NN Leven (General Meeting) reappointed KPMG as external auditor of NN Leven for the financial years 2020 through 2022. It is intended to propose to the General Meeting of NN Group to reappoint KPMG as external auditor of NN Group with the instruction to audit the annual accounts for the financial years 2023 through 2025 at the 2022 annual general meeting of NN Group on 19 May 2022. If reappointed, the General Meeting of NN Leven intends to reappoint KPMG as external auditor of NN Leven for the financial years 2023 through 2025.

The external auditor attended the meetings of the Supervisory Board on 29 March, 26 May, 23 August and 10 November 2021.

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.

Corporate governance continued

The Code of Conduct for Insurers is available on the website of the Dutch Association of Insurers (www.verzekeraars.nl).

Data privacy

As digitalisation continues rapidly, we are conscious that to safeguard the privacy of our customers it is more important than ever to secure their personal data and handle it responsibly. We do this by complying with all legislative data protection requirements, of which the EU General Data Protection Regulation (GDPR) is the most important. Data is vital to us in order to be able to serve our customers effectively today and in the future. We aim to strengthen our interactions with customers, forge more intuitive partnerships, and create client-oriented solutions.

Our data & artificial intelligence (AI) analyses are focused on product/market optimalisation, process efficiency, and fraud and claim analytics. For all AI use cases, it is vital that the application is trustworthy by design. To help us ensure this, in 2020 NN Group developed its own AI ethics framework (the 'NN AI Guidelines') in line with its corporate values. These guidelines facilitate the development and use of trustworthy AI and go beyond what current legislation prescribes. The Guidelines adhere to the seven principles of trustworthy AI, as set out in the Ethics Guidelines for Trustworthy AI developed by the High-Level Expert Group on Artificial Intelligence. Our AI Guidelines also enable us to deploy AI and other data driven activities in line with the Ethical Framework of the Dutch Association of Insurers (Verbond van Verzekeraars).

Rotterdam, 28 March 2022

The Management Board

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Consolidated annual accounts

Consolidated balance sheet

Amounts in millions of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2021	2020
Assets			
Cash and cash equivalents	3	233	261
Financial assets at fair value through profit or loss:	4		
– investments for risk of policyholders		27,229	23,742
– non-trading derivatives		6,137	14,022
– designated as at fair value through profit or loss		430	440
Available-for-sale investments	5	68,093	73,244
Loans	6	40,220	40,228
Reinsurance contracts	16	1,200	1,437
Associates and joint ventures	7	6,789	5,570
Real estate investments	8	2,719	2,444
Property and equipment	9	72	78
Intangible assets	10	50	54
Deferred acquisition costs	11	235	235
Deferred tax assets	28	33	0
Other assets	12	3,370	4,531
Total assets		**156,810**	**166,286**
Equity			
Shareholder's equity (parent)		25,313	29,508
Minority interests		1,865	1,181
Undated subordinated loan		800	800
Total equity	13	**27,978**	**31,489**
Liabilities			
Subordinated debt	14	1,120	1,149
Other borrowed funds	15	531	290
Insurance and investment contracts	16	115,766	114,527
Financial liabilities at fair value through profit or loss:	17		
– non-trading derivatives		1,681	3,369
Deferred tax liabilities	28	3,917	5,361
Other liabilities	18	5,817	10,101
Total liabilities		**128,832**	**134,797**
Total equity and liabilities		**156,810**	**166,286**

References relate to the notes starting on page 18. 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		2021		2020
Gross premium income	19		3,981		3,534
Investment income	20		4,408		3,244
– gross fee and commission income		44		57	
– fee and commission expenses		-190		-147	
Net fee and commission income	21		-146		-90
Valuation results on non-trading derivatives	22		-319		856
Foreign currency results[1]			433		-378
Share of result from associates and joint ventures	7		886		221
Other income	23		7		36
Total income			**9,250**		**7,423**
– gross underwriting expenditure		9,773		7,573	
– investment result for risk of policyholders		-3,173		-1,486	
– reinsurance recoveries		-1,028		-985	
Underwriting expenditure	24		5,572		5,102
Staff expenses	25		209		227
Interest expenses	26		175		160
Other operating expenses	27		239		253
Total expenses			**6,195**		**5,742**
Result before tax			3,055		1,681
Taxation	28		447		354
Net result			**2,608**		**1,327**
Net result attributable to:					
Shareholder of the parent			2,464		1,311
Minority interests			144		16
Net result			**2,608**		**1,327**

1 The foreign currency results relate mainly to investment in debt securities in US-dollars. The foreign exchange risk on these investments is mitigated by foreign exchange derivatives and is recognised under valuation results on non-trading derivatives.

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2021		2020
Net result		**2,608**		**1,327**
Items that may be reclassified subsequently to the profit and loss account:				
– unrealised revaluations property in own use			-3	
– unrealised revaluations available-for-sale investments and other	-1,532		3,346	
– realised gains/losses transferred to the profit and loss account	-1,591		-824	
– changes in cash flow hedge reserve	-3,283		3,278	
– deferred interest credited to policyholders	1,273		-373	
– exchange rate differences	7		1	
Total other comprehensive income		**-5,126**		**5,425**
Total comprehensive income		**-2,518**		**6,752**
Comprehensive income attributable to:				
Shareholder of the parent	-3,202		6,498	
Minority interests	684		254	
Total comprehensive income		**-2,518**		**6,752**

Reference is made to Note 28 '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	2021	2020
Result before tax		3,055	1,681
Adjusted for:			
- depreciation		4	5
- deferred acquisition costs and value of business acquired		11	13
- underwriting expenditure (change in insurance liabilities)		-454	105
- realised results and impairments of available-for-sale investments		-2,034	-224
- other		86	-396
Taxation paid		-204	-7
Changes in:			
- non-trading derivatives		1,522	1,862
- other financial assets at fair value through profit or loss		56	19
- other assets		1,777	878
- other liabilities		-4,191	2,527
Net cash flow from operating activities		**-372**	**6,463**
Investments and advances:			
- associates and joint ventures	7	-708	-332
- available-for-sale investments	5	-7,993	-9,406
- real estate investments	8	-156	-66
- investments for risk of policyholders		-5,253	-6,367
- loans		-18,581	-13,542
Disposals and redemptions:			
- associates and joint ventures	7	154	115
- available-for-sale investments	5	10,218	9,995
- real estate investments	8	124	176
- investments for risk of policyholders		4,950	6,357
- loans		18,375	7,535
Net cash flow from investing activities		**1,130**	**-5,535**
Proceeds from other borrowed funds	15	526	2,642
Repayments of other borrowed funds	15	-285	-2,570
Dividend paid	13	-980	-870
Coupon on undated subordinated loan		-47	-47
Net cash flow from financing activities		**-786**	**-845**
Net cash flow		**-28**	**83**
Cash and cash equivalents at beginning of the period	3	261	178
Net cash flow		-28	83
Cash and cash equivalents at end of the period		**233**	**261**

Included in Net cash flow from operating activities

For the year ended 31 December	2021	2020
Interest received	2,554	2,633
Interest paid	-237	-192
Dividend received	484	486

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 2021	**23**	**3,228**	**26,257**	**29,508**	**1,181**	**800**	**31,489**
Unrealised revaluations property in own use	0	0	0	0	0	0	0
Unrealised revaluations available-for-sale investments and other	0	0	-2,072	-2,072	540	0	-1,532
Realised gains/losses transferred to the profit and loss account	0	0	-1,591	-1,591	0	0	-1,591
Changes in cash flow hedge reserve	0	0	-3,283	-3,283	0	0	-3,283
Deferred interest credited to policyholders	0	0	1,273	1,273	0	0	1,273
Exchange rate differences	0	0	7	7	0	0	7
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-5,666**	**-5,666**	**540**	**0**	**-5,126**
Net result	0	0	2,464	2,464	144	0	2,608
Total comprehensive income	**0**	**0**	**-3,202**	**-3,202**	**684**	**0**	**-2,518**
Changes in the composition of the group and other changes	0	0	22	22	0	0	22
Dividend	0	0	-980	-980	0	0	-980
Coupon on undated subordinated loan	0	0	-35	-35	0	0	-35
Balance at 31 December 2021	**23**	**3,228**	**22,062**	**25,313**	**1,865**	**800**	**27,978**

	Share capital	Share premium	Reserves	Total Shareholder's equity (parent)	Minority interest	Undated subordinated loan	Total equity
Balance at 1 January 2020	**23**	**3,228**	**20,674**	**23,925**	**927**	**800**	**25,652**
Unrealised revaluations property in own use	0	0	-3	-3	0	0	-3
Unrealised revaluations available-for-sale investments and other	0	0	3,108	3,108	238	0	3,346
Realised gains/losses transferred to the profit and loss account	0	0	-824	-824	0	0	-824
Changes in cash flow hedge reserve	0	0	3,278	3,278	0	0	3,278
Deferred interest credited to policyholders	0	0	-373	-373	0	0	-373
Exchange rate differences	0	0	1	1	0	0	1
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**5,187**	**5,187**	**238**	**0**	**5,425**
Net result	0	0	1,311	1,311	16	0	1,327
Total comprehensive income	**0**	**0**	**6,498**	**6,498**	**254**	**0**	**6,752**
Changes in the composition of the group and other changes	0	0	-10	-10	0	0	-10
Dividend	0	0	-870	-870	0	0	-870
Coupon on undated subordinated loan	0	0	-35	-35	0	0	-35
Balance at 31 December 2020	**23**	**3,228**	**26,257**	**29,508**	**1,181**	**800**	**31,489**

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, number 24042211. The principal activities of NN Leven are described in 'NN Group and NN Leven at a Glance'. Amounts in the annual accounts are in millions of euros, unless stated otherwise.

1 Accounting policies

Basis of preparation

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

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

NN Leven's policy for property in own use is fair value, with changes in the fair value reflected, after tax, in the 'Revaluation reserve' in 'Other comprehensive income' (equity). A net negative revaluation on individual properties is reflected immediately in the Consolidated profit and loss account.

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

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.

Changes in IFRS-EU effective in 2021

Upcoming changes in IFRS-EU

The most relevant upcoming changes in IFRS-EU that are relevant for NN Leven 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.

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 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 and measurement of financial liabilities remains unchanged.

Impairment

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

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. IFRS 9 includes the option to continue applying IAS 39 for hedge accounting.

Notes to the Consolidated annual accounts continued

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment') and extended the amendment in June 2020. 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, so that it can be implemented together with IFRS 17. This exemption is only available to entities whose activities are predominantly connected with insurance.

NN Leven's activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of NN Leven include insurance liabilities within the scope of IFRS 4, certain investment contract liabilities and other liabilities relating to insurance entities and activities.

NN Leven applies the temporary exemption and, therefore, NN Leven expects to implement IFRS 9 together with IFRS 17.

The Amendment requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39 meet the definition of 'solely payments of principal and interest on the principal amount outstanding' in IFRS 9 as well as additional information on the credit rating of such assets and whether such assets are 'low credit risk'. In this context, 'low credit risk' is equivalent to 'investment grade' as defined by ratings agencies (generally a rating of BBB- or better).

These additional disclosures are included in Note 29 'Fair value of financial assets and liabilities' and in Note 44 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017 and a revised version was issued in June 2020. 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 deferred acquisition costs (DAC) for all insurance companies, including NN Leven and its subsidiaries. IFRS 17 is endorsed in the EU and will be effective as of 1 January 2023.

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. NN Leven initiated an implementation project and is performing impact assessments and parallel reporting runs. 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 shareholders' equity, net result, presentation and disclosure. Shareholders' equity under IFRS 9 and 17 will be significantly lower as a result of the measurement of insurance liabilities at current assumptions. This will be consistent with the measurement of the associated invested assets that are already mostly measured at fair value. At this moment it is too early to disclose quantitative impact of the implementation as of 2023 as the preparation of the transitional balance sheet, the decisions on key policy choices and assumptions and the parallel reporting runs are ongoing.

Changes in presentation

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.

Critical accounting policies and significant judgements

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, acquisition accounting, 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.

Notes to the Consolidated annual accounts continued

All valuation techniques used are subject to internal review and approval. For further details on the application of these accounting policies, reference is made to the applicable notes to the Consolidated annual accounts and the information below.

Acquisition accounting, goodwill and other intangible assets

NN Leven's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of acquisition) of assets acquired, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree. Assets acquired include intangible assets such as brand names, client relationships and distribution channels. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Goodwill, being the positive difference between the cost of the acquisition (including assumed debt) and NN Leven's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. In case there is a negative difference between the cost of the acquisition (including assumed debt) and NN Leven's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, this is referred to as negative goodwill and is recognised in profit and loss in the reporting period the acquisition is finalised. Negative goodwill is recognised immediately in the profit and loss account as income. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as 'Other operating expenses'.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the annual accounts can be limited. The initial accounting shall be completed within a year after acquisition.

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. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

Goodwill is allocated to cash generating units (reporting units) for the purpose of impairment testing of goodwill and other intangible assets. These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash generating units (reporting units including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

The identification of cash generating units and impairments is an inherently uncertain process involving various assumptions and factors, including expected future cash flows, discount rates, 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.

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.

The adequacy of insurance liabilities, net of DAC (the net insurance liabilities), is evaluated 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 external, 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 30 'Fair value of non-financial assets' for more disclosure on fair value of real estate investments at the balance sheet date.

Notes to the Consolidated annual accounts continued

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 external 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 29 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

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 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 an 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 39 'Principal subsidiaries'.

Notes to the Consolidated annual accounts continued

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.

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

Offsetting of financial assets and financial liabilities

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

Notes to the Consolidated annual accounts continued

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 37 '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 44 'Risk management'.

Leases

The leases entered into by NN Leven as a lessee are primarily operating leases. At inception of a contract, NN Leven assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The net present value of operating lease commitments is recognised on the balance sheet as a 'right of use asset' under Property and equipment or Real estate investments and a lease liability is recognised under Other liabilities. NN Leven does not recognise a right of use asset and a lease liability for short term leases that have a lease term of 12 months or less and for leases of low value assets. The lease payments associated with these leases are recognised as an expense.

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 has become 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.

Notes to the Consolidated annual accounts continued

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 together with the intention to do so 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

NN Group share-based payment expenses in relation to NN Leven staff 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. Interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account, except for interest income/expense on derivatives for which no hedge accounting is applied. The latter is classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these derivatives.

Statement of cash flows

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

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

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

Cash flows related to mortgage loans held as investment in the insurance operations are recognised under Net cash flow from investing activities.

Cash flows on collateral related to derivatives (presented in the balance sheet in Other assets and Other liabilities) is presented in the Consolidated statement of cash flows as part of Net cash flow from operating activities, consistent with the cash flows of the related derivatives.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 4 and 17)

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.

Notes to the Consolidated annual accounts continued

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.

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 5)

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'.

Notes to the Consolidated annual accounts continued

Loans (Note 6)
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 7)
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 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 8)
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 by an external valuer. 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.

Notes to the Consolidated annual accounts continued

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.

Property and equipment (Note 9)
Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying value are recognised in other comprehensive income (equity). Decreases in the carrying value that offset previous increases of the same asset are charged against other comprehensive income (equity); all other decreases are recognised in the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). On disposal, the related revaluation reserve in equity is transferred within equity to 'Retained earnings'.

The fair value of land and buildings is based on regular appraisals by independent, qualified valuers or internally, similar to appraisals of real estate investments. All significant holdings of land and buildings are appraised at least annually. Subsequent expenditure is included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to NN Leven and the cost of the item can be measured reliably.

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'.

Methods of depreciation and amortisation
Items of property and equipment are depreciated, intangible assets with finite useful lives are amortised. The carrying values of the assets are depreciated/amortised on a straight-line basis over the estimated useful lives. Methods of depreciation and amortisation, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets (Note 10)
Computer software
Computer software that has been purchased or generated internally for own use 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'.

Value of business acquired (VOBA)
VOBA is an asset that represents the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which exists at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of the deferred acquisition costs as described in the section 'Deferred acquisition costs'.

The 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 11)
Deferred acquisition costs (DAC) represent costs of acquiring insurance and investment contracts that are deferred and amortised. The deferred costs, all of which vary with (and are primarily related to) the production of new and renewal business, consist principally of commissions, certain underwriting and contract issuance expenses, and certain agency expenses.

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

Notes to the Consolidated annual accounts continued

DAC amortisation is included in the Underwriting expenditure in the profit and loss account.

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 14 and 15)

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 16)

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 prudent prospective actuarial method.

Insurance liabilities on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions 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. For the insurance liabilities that were taken over in the Delta Lloyd acquisition, these assumptions are set as at the date of acquisition, 1 April 2017.

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).

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.

Notes to the Consolidated annual accounts continued

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 is evaluated at each reporting period. The test involves comparing the established insurance liability (gross of unamortised interest rate rebates, DAC and VOBA) 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 and returns. The best estimate assumption for mortality takes into account both mortality data from the Dutch national population and comparable European countries and experience mortality data from the insured portfolios. 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 insurance liabilities are determined to be more than adequate no reduction in the 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).

Other liabilities (Note 18)
Provisions
Other liabilities include reorganisation provisions, litigation provisions 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 19)
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 22)
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.

2 Covid-19 pandemic
Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the world-wide economy, impacting NN Leven, its employees, its customers and its suppliers. Financial markets have been severely impacted by significant volatility in interest rates, equity prices and spreads and the world-wide economy has been significantly impacted as well. Governments and central banks worldwide are responding to this crisis with aid packages and further supporting measures. NN Leven is constantly monitoring the developments and the (potential) impact on NN Leven. The most significant risks that NN Leven is facing in this context are related to the financial markets (including interest rates, inflation, equity prices and spreads), insurance risk (including mortality and policyholder behaviour) and operational risk (continuity of business processes). Note 44 'Risk management' includes extensive disclosure on the exposure to such risks and the risk management thereof.

The Covid-19 pandemic, and the related impact on the financial markets, impacted the financial reporting of NN Leven mainly through additional uncertainties in the determination of the fair value of illiquid assets, including real estate investments and private equity investments. NN Leven uses quarterly appraisals by external valuers as main input for the determination of fair value of its real estate investments. During 2020 uncertainties in the environment have led to the inclusion of 'material valuation uncertainty' clauses in certain external valuation reports. Such clauses do not imply that the valuation cannot be relied upon, but are used to indicate that – in the extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case.

Notes to the Consolidated annual accounts continued

In 2021, the Covid-19 pandemic continued, but the impact on NN Leven's financial reporting in 2021 was limited. Valuation uncertainties were no longer included for valuations and there were no significant impairments (including debt and equity securities, loans and intangible assets). Furthermore, there was no significant impact from the Covid-19 pandemic on the technical provisions for insurance contracts.

NN Leven has established a business continuity plan to help ensure the continuity of its businesses, the well-being of its staff and its capability to support its customers, while maintaining financial and operational resilience.

3 Cash and cash equivalents

Cash and cash equivalents

	2021	2020
Cash and bank balances	233	260
Short term deposits	0	1
Cash and cash equivalents	**233**	**261**

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

4 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2021	2020
Investments for risk of policyholders	27,229	23,742
Non-trading derivatives	6,137	14,022
Designated as at fair value through profit or loss	430	440
Financial assets at fair value through profit or loss	**33,796**	**38,204**

Investments for risk of policyholders

	2021	2020
Equity securities	26,449	22,816
Debt securities	55	86
Loans and receivables	725	840
Investments for risk of policyholders	**27,229**	**23,742**

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

Non-trading derivatives

	2021	2020
Derivatives used in:		
- hedges of net investments in foreign operations	1	0
- cash flow hedges	4,609	10,028
Other non-trading derivatives	1,527	3,994
Non-trading derivatives	**6,137**	**14,022**

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

	2021	2020
Equity securities	402	416
Debt securities	26	26
Other	2	-2
Designated as at fair value through profit or loss	**430**	**440**

5 Available-for-sale investments

Available-for-sale investments

	2021	2020
Equity securities	10,303	9,808
Debt securities	57,790	63,436
Available-for-sale investments	**68,093**	**73,244**

Notes to the Consolidated annual accounts continued

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2021	2020	2021	2020	2021	2020
Available-for-sale investments - opening balance	9,808	6,357	63,436	63,984	73,244	70,341
Additions	2,120	4,077	5,873	5,329	7,993	9,406
Amortisation	0	0	-157	-189	-157	-189
Transfers and reclassifications	0	15	0	0	0	15
Changes in unrealised revaluations	978	1,138	-4,174	3,126	-3,196	4,264
Impairments	-41	-167	1	-1	-40	-168
Disposals and redemptions	-2,582	-1,602	-7,636	-8,393	-10,218	-9,995
Exchange rate differences	48	-12	447	-420	495	-432
Changes in the composition of the group and other changes	-28	2	0	0	-28	2
Available-for-sale investments - closing balance	**10,303**	**9,808**	**57,790**	**63,436**	**68,093**	**73,244**

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

Total exposure to debt securities

	2021	2020
Available-for-sale investments	57,790	63,436
Loans	275	651
Available-for-sale investments and Loans	**58,065**	**64,087**
Investments for risk of policyholders	55	86
Designated as at fair value through profit or loss	26	26
Financial assets at fair value through profit or loss	**81**	**112**
Total exposure to debt securities	**58,146**	**64,199**

NN Leven's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale-investments		Loans		Total	
	2021	2020	2021	2020	2021	2020
Government bonds	40,246	45,300	0	0	40,246	45,300
Corporate bonds	11,791	11,807	0	0	11,791	11,807
Financial institution bonds	4,425	4,992	0	0	4,425	4,992
ABS portfolio	1,328	1,337	275	651	1,603	1,988
Debt securities - Available-for-sale investments and Loans	**57,790**	**63,436**	**275**	**651**	**58,065**	**64,087**

Available-for-sale equity securities

	2021	2020
Listed	4,859	5,570
Unlisted	5,444	4,238
Available-for-sale equity securities	**10,303**	**9,808**

6 Loans

Loans

	2021	2020
Loans secured by mortgages	33,043	29,601
Loans related to savings mortgages	1,550	1,664
Loans to or guaranteed by public authorities	1,277	1,617
Asset-backed securities	275	651
Policy loans	7	8
Other loans	4,182	6,810
Loans - before loan loss provisions	**40,334**	**40,351**
Loan loss provisions	-114	-123
Loans	**40,220**	**40,228**

Other contains EUR 1,524 million (2020: EUR 4,270 million) of loans with NN Group companies.

Notes to the Consolidated annual accounts continued

Changes in Loans secured by mortgages

	2021	2020
Loans secured by mortgages – opening balance	29,601	27,461
Additions/ origination	6,300	4,691
Redemption	-2,743	-1,937
Amortisation	-109	-132
Disposals	0	-475
Impairments and write-offs	0	-1
Changes in the composition of the group and other changes	-6	-6
Loans secured by mortgages – closing balance	**33,043**	**29,601**

Changes in Loan loss provisions

	2021	2020
Loan loss provisions - opening balance	123	113
Write-offs	-7	-5
Increase/decrease in loan loss provisions	-4	13
Changes in the composition of the group and other changes	2	2
Loan loss provisions - closing balance	**114**	**123**

7 Associates and joint ventures

Associates and joint ventures (2021)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	24%	1,840	9,463	1,909	1,588	132
CBRE Dutch Office Fund FGR	19%	402	2,883	721	279	68
CBRE European Industrial Fund FGR	27%	322	1,729	544	343	39
CBRE Retail Industrial Fund Iberica FGR	50%	223	520	73	43	26
CBRE Dutch Residential Fund FGR	8%	235	3,075	134	413	34
Lazora S.I.I. S.A.	22%	212	1,542	583	72	43
NRP Nordic Logistic Fund SA	42%	222	532	3	100	5
CBRE Dutch Retail Fund FGR	20%	185	1,298	384	-9	37
CBRE UK Property Fund PAIF	10%	201	1,992	16	306	2
Dutch Urban Living Venture FGR	45%	152	447	112	53	5
Allee Center Kft	50%	124	275	27	14	11
Achmea Dutch Health Care Property Fund	23%	128	580	15	47	8
Ardstone Residential Income Fund	45%	178	540	147	28	1
Dutch Student and Young Professional Housing fund FGR	49%	127	339	80	30	5
Parcom Buy-Out Fund V C.V.	21%	107	584	81	127	6
Robeco Bedrijfsleningen FGR	26%	112	432	1	51	5
Rivage Euro Debt infrastructure 3	34%	227	665	2	0	0
Fiumaranuova s.r.l.	50%	110	229	9	13	10
Siresa House S.L.	49%	98	484	282	61	54
DPE Deutschland III (Parallel) GmbH & Co	17%	149	970	88	289	3
Boccaccio - Closed-end Real Estate Mutual Investment Fund	50%	79	189	31	11	4
the Fizz Student Housing Fund SCS	50%	91	259	74	20	6
Parcom Buy Out Fund IV B.V.	100%	68	80	12	54	23
CBRE Dutch Retail Fund II FGR	10%	65	667	15	-10	13
Delta Mainlog Holding GmbH & Co. KG	50%	96	192	1	70	2
CBRE Property Fund Central and Eastern Europe FGR	50%	59	163	44	14	8
DPE Deutschland II B GmbH & Co KG	37%	52	182	40	3	0
Parquest Capital II B FPCI	26%	78	308	14	0	8
NL Boompjes Property 5 C.V.	50%	65	133	4	14	3
Siresa House 2 S.L.	49%	55	199	86	11	8
Prime Ventures V C.V.	19%	57	306	0	3	4
Rivage Hopitaux Publics Euro	34%	61	178	0	0	0
Macquarie European Infrastructure Debt Fund	77%	152	198	1	0	0
Other		457				
Associates and joint ventures		**6,789**				

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.

Notes to the Consolidated annual accounts continued

Other includes EUR 247 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 210 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.

Associates and joint ventures (2020)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	24%	1,531	7,333	1,050	558	103
CBRE Dutch Office Fund FGR	19%	370	2,709	718	154	67
CBRE European Industrial Fund FGR	26%	240	1,344	416	148	37
CBRE Retail Industrial Fund Iberica FGR	50%	218	518	82	-34	30
CBRE Dutch Residential Fund FGR	9%	209	2,562	108	175	31
Lazora S.I.I. S.A.	22%	209	1,531	588	86	41
NRP Nordic Logistic Fund SA	42%	203	501	18	36	11
CBRE Dutch Retail Fund FGR	20%	201	1,382	392	-32	36
CBRE UK Property Fund PAIF	10%	163	1,605	0	-46	5
Dutch Urban Living Venture FGR	45%	127	384	105	61	7
Allee Center Kft	50%	126	276	24	5	10
Achmea Dutch Health Care Property Fund	23%	121	543	14	23	3
Dutch Student and Young Professional Housing fund FGR	49%	120	323	79	34	8
Parcom Buy-Out Fund V C.V.	21%	119	578	15	-38	5
Robeco Bedrijfsleningen FGR	26%	117	451	1	15	2
Rivage Euro Debt infrastructure 3	34%	104	306	1	5	3
Fiumaranuova s.r.l.	50%	100	234	34	8	10
Siresa House S.L.	49%	96	490	293	39	47
DPE Deutschland III (Parallel) GmbH & Co	17%	93	575	21	83	4
Boccaccio - Closed-end Real Estate Mutual Investment Fund	50%	88	238	61	0	3
the Fizz Student Housing Fund SCS	50%	87	250	75	11	1
Parcom Buy Out Fund IV B.V.	100%	82	96	14	0	5
CBRE Dutch Retail Fund II FGR	10%	69	703	12	-36	11
Delta Mainlog Holding GmbH & Co. KG	50%	64	129	1	16	0
CBRE Property Fund Central and Eastern Europe FGR	50%	60	0	-119	9	9
DPE Deutschland II B GmbH & Co KG	37%	56	196	45	-19	1
Parquest Capital II B FPCI	28%	54	197	4	0	8
NL Boompjes Property 5 C.V.	50%	54	108	0	6	0
Other		489				
Associates and joint ventures		**5,570**				

Changes in Associates and joint ventures

	2021	2020
Associates and joint ventures - opening balance	5,570	5,407
Additions	708	332
Disposals	-154	-115
Share in change in equity (revaluations)	-4	2
Share of results	886	221
Dividends received	-223	-276
Exchange rate differences	6	-1
Associated and joint ventures - closing balance	**6,789**	**5,570**

8 Real estate investments

Changes in Real estate investments

	2021	2020
Real estate investments - opening balance	2,444	2,571
Additions	156	66
Disposals	-124	-176
Transfer to/from Other assets	2	3
Fair value gains/(losses)	241	-21
Changes in the composition of the group and other changes	0	1
Real estate investments - closing balance	**2,719**	**2,444**

Notes to the Consolidated annual accounts continued

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2021 is EUR 161 million (2020: EUR 163 million). The Real estate investments include properties that are leased (ground lease). At 31 December 2021, the corresponding right of use assets amounts to EUR 45 million (2020: EUR 45 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 2021 is EUR 57 million (2020: EUR 54 million).

Real estate investments by year of most recent appraisal

In percentages	2021	2020
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

	2021	2020
Real estate investments	2,719	2,444
Investments - available-for-sale	2,415	1,926
Associates and joint ventures	5,612	4,833
Property and equipment - property in own use	35	36
Total Real estate exposure	**10,781**	**9,239**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments. Reference is made to Note 44 'Risk management'.

9 Property and Equipment

Property and Equipment

	2021	2020
Property in own use	35	36
Equipment	0	0
Property and equipment owned	**35**	**36**
Right of use assets	37	42
Property and equipment	**72**	**78**

Changes in Property in own use

	2021	2020
Property in own use – opening balance	36	41
Revaluations	-1	-5
Changes in the composition of the group and other changes	0	0
Property in own use – closing balance	**35**	**36**
Gross carrying value	35	36
Accumulated depreciation, revaluations and (reversal of) impairments	0	0
Net carrying value	**35**	**36**
Revaluation surplus – opening balance	8	12
Revaluation in year	0	-4
Released in year	0	0
Revaluation surplus – closing balance	**8**	**8**

Changes in Right of use assets - Property

	2021	2020
Right of use assets – opening balance	42	44
Depreciation	-5	-4
Changes in the composition of the group and other changes	0	2
Right of use assets – Closing balance	**37**	**42**
Gross carrying value	50	50
Accumulated depreciation	-13	-8
Net carrying value	**37**	**42**

Notes to the Consolidated annual accounts continued

10 Intangible assets

Changes in Intangible assets (2021)

	Value of business acquired	Software	Total
Intangible assets - opening balance	54	0	54
Amortisation	-7	0	-7
Exchange rate differences	3	0	3
Intangible assets - closing balance	**50**	**0**	**50**
Gross carrying value	81	37	118
Accumulated amortisation	-31	-37	-68
Net carrying value	**50**	**0**	**50**

The value of business acquired is related to the Czech business.

Changes in Intangible assets (2020)

	Value of business acquired	Software	Total
Intangible assets - opening balance	67	0	67
Amortisation	-11	0	-11
Exchange rate differences	-2	0	-2
Intangible assets - closing balance	**54**	**0**	**54**
Gross carrying value	81	37	118
Accumulated amortisation	-27	-37	-64
Net carrying value	**54**	**0**	**54**

11 Deferred acquisition costs

Changes in Deferred acquisition costs

	2021	2020
Deferred acquisition costs - opening balance	235	240
Capitalised	36	35
Amortisation	-42	-38
Disposals	2	0
Exchange rate differences	4	-2
Deferred acquisition costs - closing balance	**235**	**235**

The capitalised acquisition costs in 2021 and 2020 are mainly related to the Czech business.

12 Other assets

Other assets

	2021	2020
Insurance and reinsurance receivables	203	276
Accrued interest and rents	953	1,045
Other accrued assets	15	73
Cash collateral amounts paid	258	480
Other	1,941	2,657
Other assets	**3,370**	**4,531**

Other contains EUR 1,722 million (2020: EUR 2,547 million) of current accounts with NN Group companies.

Insurance and reinsurance receivables

	2021	2020
Receivables on account of direct insurance from:		
- policyholders	198	194
- intermediaries	1	12
Reinsurance receivables	4	70
Insurance and reinsurance receivables	**203**	**276**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 3 million as at 31 December 2021 (2020: EUR 6 million). The receivables are presented net of this allowance.

Notes to the Consolidated annual accounts continued

13 Equity

Total equity

	2021	2020
Share capital	23	23
Share premium	3,228	3,228
Revaluation reserve	12,990	18,663
Currency translation reserve	-41	-48
Other reserves	9,113	7,642
Shareholder's equity (parent)	**25,313**	**29,508**
Minority interests	1,865	1,181
Undated subordinated notes	800	800
Total equity	**27,978**	**31,489**

Share capital

	Shares (in number)		Ordinary shares (amounts in millions of euros)	
	2021	2020	2021	2020
Authorised share capital	22,689,015	22,689,015	114	114
Unissued share capital	18,151,212	18,151,212	91	91
Issued share capital	**4,537,803**	**4,537,803**	**23**	**23**

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 4,537,803 shares are issued and fully paid up as at 31 December 2021.

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. For NN Leven is the Solvency II Own Funds leading for the restriction posed on the amount of dividends it can pay to its shareholder.

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

	2021	2020
Share premium - opening balance	3,228	3,228
Share premium - closing balance	**3,228**	**3,228**

Changes in Revaluation reserve (2021)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	6	6,774	11,883	18,663
Unrealised revaluations	0	-2,072	0	-2,072
Realised gains/losses transferred to the profit and loss account	0	-1,591	0	-1,591
Changes in cash flow hedge reserve	0	0	-3,283	-3,283
Deferred interest debited/credited to policyholders	0	1,273	0	1,273
Revaluation reserve - closing balance	**6**	**4,384**	**8,600**	**12,990**

Changes in Revaluation reserve (2020)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	9	4,862	8,605	13,476
Unrealised revaluations	-3	3,109	0	3,106
Realised gains/losses transferred to the profit and loss account	0	-824	0	-824
Changes in cash flow hedge reserve	0	0	3,278	3,278
Deferred interest debited/credited to policyholders	0	-373	0	-373
Revaluation reserve - closing balance	**6**	**6,774**	**11,883**	**18,663**

Deferred interest credited to policyholders reflects the change in the deferred profit sharing liabilities (net of deferred tax). Reference is made to Note 16 'Insurance and investment contracts, reinsurance contracts'.

Notes to the Consolidated annual accounts continued

Changes in Currency translation reserve

	2021	2020
Currency translation reserves - opening balance	-48	-49
Exchange rate differences for the period	7	1
Currency translation reserves - closing balance	**-41**	**-48**

Changes in Other reserves (2021)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	6,385	1,257	7,642
Net result for the period	2,464	0	2,464
Transfer to/from Share of associates reserve	-579	579	0
Dividend	-980	0	-980
Coupon on undated subordinated notes	-35	0	-35
Changes in the composition of the group and other changes	22	0	22
Other reserves - closing balance	**7,277**	**1,836**	**9,113**

Changes in Other reserves (2020)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	6,087	1,160	7,247
Net result for the period	1,311	0	1,311
Transfer to/from Share of associates reserve	-97	97	0
Dividend	-870	0	-870
Coupon on undated subordinated notes	-35	0	-35
Changes in the composition of the group and other changes	-11	0	-11
Other reserves - closing balance	**6,385**	**1,257**	**7,642**

In accordance with the NN Group annual accounts only the non-distributable reserves are recognised in the Share of associate reserve.

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 2021 net result of EUR 2,464 million to the 'Retained earnings'.

Undated subordinated loan

On 30 May 2014, NN Leven received a EUR 450 million perpetual subordinated loan from 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.

On 31 December 2016, Delta Lloyd Leven received a EUR 350 million perpetual subordinated loan from Delta Lloyd N.V. The loan is callable at par value after 10 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 7.600% per annum for the first 10 years and will be floating thereafter. As this loan is undated and includes optional cancellation 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. As a result of merging Delta Lloyd N.V. with NN Group N.V. and Delta Lloyd Leven with NN Leven, this undated subordinated loan is now between NN Group and NN Leven.

In 2021, coupon payments on the undated subordinated notes of EUR 35 million after tax (2020: EUR 35 million after tax) were distributed out of the Other reserves.

14 Subordinated debt

Subordinated debt

Interest rate	Year of Issue	Due date	First call date	Notional amount		Balance sheet value	
				2021	2020	2021	2020
5.600%	2014	10-Feb-44	10-Feb-24	600	600	600	600
9.000%	2012	29-Aug-42	29-Aug-22	500	500	520	549
Subordinated debt				**1,100**	**1,100**	**1,120**	**1,149**

In 2014, NN Leven received a EUR 600 million subordinated loan from 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.

Notes to the Consolidated annual accounts continued

In 2012, Delta Lloyd Leven issued a EUR 500 million subordinated loan. This loan is callable at par value after 10 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 9.000% per annum for the first 10 years and will be floating thereafter.

15 Other borrowed funds

Other borrowed funds

	2021	2020
Other borrowed funds - opening balance	290	218
Additions	526	2,642
Disposals	-285	-2,570
Other borrowed funds - closing balance	**531**	**290**

Under Note 45 'Capital and liquidity management' an overview of the internal borrowing facilities is disclosed.

16 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2021	2020	2021	2020	2021	2020
Non-participating life policy liabilities	33,362	33,468	31	123	33,393	33,591
Participating life policy liabilities	47,536	47,707	463	667	47,998	48,374
Liabilities for (deferred) profit sharing and rebates	6,154	7,748	56	79	6,210	7,827
Life insurance liabilities excluding liabilities for risk of policyholders	**87,052**	**88,923**	**550**	**869**	**87,601**	**89,792**
Life insurance liabilities for risk of policyholders	26,610	23,211	650	568	27,261	23,779
Life insurance liabilities	**113,662**	**112,134**	**1,200**	**1,437**	**114,862**	**113,571**
Investment contracts for risk of company	904	956	0	0	904	956
Investment contracts liabilities	**904**	**956**	**0**	**0**	**904**	**956**
Insurance and investment contracts, reinsurance contracts	**114,566**	**113,090**	**1,200**	**1,437**	**115,766**	**114,527**

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.

Deferred interest credited to policyholders is included in the 'Liabilities for (deferred) profit sharing and rebates' and amounts to EUR 5,947 million as at 31 December 2021 (2020: EUR 7,578 million).

Changes in Life insurance liabilities

	Net life insurance liabilities[1]		Net liabilities for risk of policyholders[2]		Reinsurance contracts		Life insurance liabilities	
	2021	2020	2021	2020	2021	2020	2021	2020
Life insurance liabilities - opening balance	88,923	88,158	23,211	22,709	1,437	1,522	113,571	112,389
Current years liabilities	690	1,219	1,952	1,129	847	847	3,489	3,195
Deferred interest credited to policyholders	-1,602	795	0	0	-30	6	-1,632	801
Prior year liabilities:								
-benefit payments to policyholders	-3,327	-3,858	-1,337	-1,199	-832	-908	-5,496	-5,965
-interest accrual and changes in fair value of liabilities	1,569	1,748	0	0	3	7	1,572	1,755
-valuation changes for risk of policyholders	0	0	3,115	1,485	57	0	3,172	1,485
-effect of changes in other assumptions	0	0	0	-2	0	0	0	-2
Exchange rate differences	8	-24	1	-17	61	0	72	-41
Other changes[3]	791	885	-332	-894	-343	-37	114	-46
Life insurance liabilities - closing balance	**87,052**	**88,923**	**26,610**	**23,211**	**1,200**	**1,437**	**114,862**	**113,571**

1 Net of reinsurance and liabilities for risk of policyholders.
2 Net of reinsurance.
3 Other changes include termination of a large corporate reinsured contract (EUR 400 million), 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 4.2% (2020: 1.8% to 4.2%).

Notes to the Consolidated annual accounts continued

The reinsurance mainly concerns:

- reinsurance of the insurance operations of the branch in the Czech Republic.
- reinsurance of the longevity risk with internal and external parties.

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 2021, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in Note 12 'Other assets') amounts to EUR 1,204 million (2020: EUR 1,507 million).

Changes in Investment contracts

	2021	2020
Investment contracts - opening balance	956	982
Current year liabilities	0	18
Prior year liabilities:		
- payments to contract holders	-60	-53
- interest accrual	8	9
Investment contracts - closing balance	**904**	**956**

Longevity reinsurance

In May 2020, NN Leven entered into three reinsurance agreements to reinsure the full longevity risk associated with in total approximately EUR 13.5 billion of pension liabilities in NN Leven in the Netherlands. This reinsurance reduces NN Leven's exposure to longevity risk and, consequently, the required capital under Solvency II. The three reinsurance agreements are similar in nature but are agreed with three different assuming reinsurers, Canada Life, Munich Re and Swiss Re. The risk transfer is effective as of 1 January 2020 and will continue until the relevant portfolio has run off.

The premium payable to the assuming reinsurers is fixed and includes a margin of approximately EUR 451 million over the current best estimate of benefits payable under the related portfolios. This margin, which represents a cost of reinsurance to NN Leven, is recognised in the profit and loss account over the duration of the reinsurance. An amount of EUR 27 million (2020: EUR 25 million) was recognised in Underwriting expenditure in the profit and loss account in 2021. An amount of approximately EUR 399 million (undiscounted) remains to be recognised in future periods.

In December 2021, NN Leven entered into a fourth reinsurance agreement to reinsure the full longevity risk associated with in total approximately EUR 4 billion of pension liabilities in NN Leven in the Netherlands. This reinsurance reduces NN Leven's exposure to longevity risk and, consequently, the required capital under Solvency II. The fourth reinsurance agreement is similar in nature to the first three contracts but is agreed with a different reinsurer, RGA. The risk transfer for the fourth contract is effective as of 31 December 2021. The risk transfer will continue until the relevant portfolio has run off.

The premium payable to the assuming reinsurer is fixed and includes a margin of approximately EUR 140 million over the current best estimate of benefits payable under the related portfolios. This margin, which represents a cost of reinsurance to NN Leven is recognised in the profit and loss account over the duration of the reinsurance. No amount was recognised in Underwriting expenditure in the profit and loss account in 2021. An amount of approximately EUR 140 million (undiscounted) remains to be recognised in future periods.

17 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

	2021	2020
Derivatives used in:		
- cash flow hedges	881	159
- hedges of net investments in foreign operations	10	12
Other non-trading derivatives	790	3,198
Non-trading derivatives	**1,681**	**3,369**

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

Notes to the Consolidated annual accounts continued

18 Other liabilities

Other liabilities

	2021	2020
Income tax payable	20	69
Other taxation and social security contributions	63	62
Deposits from reinsurers	1,198	1,393
Lease liabilities	84	88
Accrued interest	97	130
Costs payable	42	55
Amounts payable to brokers	2	3
Amounts payable to policyholders	661	830
Other provisions	13	19
Amounts to be settled	279	270
Cash collateral amounts received	3,086	6,989
Other	272	193
Other liabilities	**5,817**	**10,101**

Following a settlement on a dispute on a reinsurance agreement, a provision that was recognised in 2019 through other provisions was released during 2021. Reference is made to Note 38 'Legal proceedings'.

Cash collateral amounts received relate to collateralised derivatives. The decrease is a result of the decrease in fair value of outstanding collateralised derivatives following an increase in market interest rates.

19 Gross premium income

Premiums written – net of reinsurance

	Gross		Reinsurance		Net of reinsurance	
	2021	2020	2021	2020	2021	2020
Insurance for risk of insurer	2,116	1,895	971	928	1,145	967
Insurance for risk of policyholders	1,865	1,639	124	111	1,741	1,528
Total	**3,981**	**3,534**	**1,095**	**1,039**	**2,886**	**2,495**

Gross premium income (2021)

	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	219	50	169	218	119	99
– with profit sharing	323	37	286	0	0	0
	542	**87**	**455**	**218**	**119**	**99**
Group						
– without profit sharing	83	0	83	1,297	0	1,297
– with profit sharing	350	884	-534	0	0	0
	433	**884**	**-451**	**1,297**	**0**	**1,297**
Total regular premiums	**975**	**971**	**4**	**1,515**	**119**	**1,396**
Single premiums						
Individual						
– without profit sharing	119	0	119	103	5	98
– with profit sharing	27	0	27	0	0	0
	146	**0**	**146**	**103**	**5**	**98**
Group						
– without profit sharing	513	0	513	247	0	247
– with profit sharing	482	0	482	0	0	0
	995	**0**	**995**	**247**	**0**	**247**
Total Single premiums	**1,141**	**0**	**1,141**	**350**	**5**	**345**
Total Gross premium income	**2,116**	**971**	**1,145**	**1,865**	**124**	**1,741**

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 (2020)

	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	221	44	177	221	107	114
– with profit sharing	357	39	318	0	0	0
	578	**83**	**495**	**221**	**107**	**114**
Group						
– without profit sharing	70	0	70	1,209	0	1,209
– with profit sharing	405	845	-440	0	0	0
	475	**845**	**-370**	**1,209**	**0**	**1,209**
Total regular premiums	**1,053**	**928**	**125**	**1,430**	**107**	**1,323**
Single premiums						
Individual						
– without profit sharing	79	0	79	91	4	87
– with profit sharing	60	0	60	0	0	0
	139	**0**	**139**	**91**	**4**	**87**
Group						
– without profit sharing	405	0	405	118	0	118
– with profit sharing	298	0	298	0	0	0
	703	**0**	**703**	**118**	**0**	**118**
Total Single premiums	**842**	**0**	**842**	**209**	**4**	**205**
Total Gross premium income	**1,895**	**928**	**967**	**1,639**	**111**	**1,528**

Geographical segmentation of gross premium income

	2021	2020
Netherlands	3,791	3,346
The Czech Republic	190	188
Total	**3,981**	**3,534**

Reference is made to Note 24 'Underwriting expenditure' for disclosure on reinsurance ceded.

20 Investment income

Investment income

	2021	2020
Interest income from investments in debt securities	1,221	1,216
Interest income from loans	863	897
Interest income from Investment in debt securities and loans	**2,084**	**2,113**
Realised gains/losses on disposal of available-for-sale debt securities	544	534
Impairment of available-for-sale debt securities	1	-1
Realised gains/losses and impairments of available-for-sale debt securities	**545**	**533**
Realised gains/losses on disposal of available-for-sale equity securities	1,048	290
Impairments of available-for-sale equity securities	-41	-167
Realised gains/losses and impairments of available-for-sale equity securities	**1,007**	**123**
Interest income on non-trading derivatives	162	191
Increase/decrease in loan loss provisions	4	-13
Income from real estate investments	105	108
Dividend income	260	210
Change in fair value of real estate investments	241	-21
Investment income	**4,408**	**3,244**

Notes to the Consolidated annual accounts continued

21 Net fee and commission income

Net fee and commission income

	2021	2020
Asset management fees	50	63
Insurance brokerage and advisory fees	-10	-9
Other	4	3
Gross fee and commission income	**44**	**57**
Asset management fees	-146	-141
Insurance brokerage and advisory fees	-44	-6
Fee and commission expenses	**-190**	**-147**
Net fee and commission income	**-146**	**-90**

22 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2021	2020
Change in fair value of derivatives relating to:		
- fair value hedges	0	-186
- cash flow hedges (ineffective portion)	-10	2
- other non-trading derivatives	-338	843
Net result on non-trading derivatives	**-348**	**659**
Change in fair value of assets and liabilities (hedged items)	-3	186
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	32	11
Valuation results on non-trading derivatives	**-319**	**856**

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 and foreign exchange exposures in the investment portfolio. 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 24 '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 31 'Derivatives and hedge accounting'.

23 Other income

'Other income' in 2021 includes releases and/or write-off of various provisions.

24 Underwriting expenditure

Underwriting expenditure

	2021	2020
Gross underwriting expenditure:		
- before effect of investment result for risk of policyholders	6,600	6,087
- effect of investment result for risk of policyholders	3,173	1,486
Gross underwriting expenditure	**9,773**	**7,573**
Investment result for risk of policyholders	-3,173	-1,486
Reinsurance recoveries	-1,028	-985
Underwriting expenditure	**5,572**	**5,102**

The investment income and valuation results regarding investments for risk of policyholders is EUR 3,173 million (2020: EUR 1,486 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.

Notes to the Consolidated annual accounts continued

Underwriting expenditure

	2021	2020
Reinsurance and retrocession premiums	1,095	1,039
Gross benefits	5,925	5,881
Reinsurance recoveries	-1,028	-985
Change in life insurance liabilities	-517	-983
Costs of acquiring insurance business	53	53
Other underwriting expenditure	-6	26
Profit sharing and rebates	43	62
Other changes in investment contract liabilities	7	9
Underwriting expenditure	**5,572**	**5,102**

At the end of each year, a settlement is made which ensures that any remaining assets and liabilities and remaining profit or loss from the Czech business in the NN Leven Annual accounts are transferred to NN Re. Reference is made to Note 41 'Related parties'.

Gross benefits

	2021	2020
Surrenders	1,148	1,139
Payments upon maturity	1,880	1,867
Payments upon death	210	188
Annuities and other periodic payments	2,661	2,665
Other	26	22
Gross benefits	**5,925**	**5,881**

Costs of acquiring insurance business

	2021	2020
Changes in deferred acquisitions costs	16	16
Brokerage fee	34	35
Other commissions	3	2
Costs of acquiring insurance business	**53**	**53**

Profit sharing and rebates

	2021	2020
Distributions on account of interest or underwriting results	7	18
Bonuses added to policies[1]	36	44
Profit sharing and rebates	**43**	**62**

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 53 million (2020: EUR 53 million). This includes amortisation and unlocking of DAC of EUR 43 million (2020: EUR 38 million) and the net amount of commissions paid of EUR 46 million (2020: EUR 49 million) and commissions capitalised in DAC of EUR 35 million (2020: EUR 34 million).

The total amount of commission paid and commission payable amounted to EUR 50 million (2020: EUR 100 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 46 million (2020: EUR 49 million) referred to above and commissions recognised in 'Other underwriting expenditure' of EUR 4 million (2020: EUR 51 million). Other underwriting expenditure also includes reinsurance commissions paid of EUR 29 million (2020: EUR 38 million).

25 Staff expenses

Staff expenses

	2021	2020
Salaries	117	122
Variable salaries	1	1
Pension costs	22	23
Social security costs	15	16
External staff costs	49	60
Education	1	1
Other staff costs	4	4
Staff expenses	**209**	**227**

NN Leven staff are employed by NN 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 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.

Notes to the Consolidated annual accounts continued

Employees in the Czech Republic were transferred to a shared service centre (NN Finance S.R.O). The salary costs are recognised in the line 'Other' in the other operating expenses instead of under staff expenses.

Pension costs

Defined contribution plans

NN Leven is one of the sponsors of 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

	2021	2020
Netherlands - average number of employees on full-time equivalent basis	1,609	1,718
Rest of Europe - average number of employees on full-time equivalent basis	18	19
Number of employees	**1,627**	**1,737**

Remuneration of Management Board and Supervisory Board

Reference is made to Note 42 'Key management personnel compensation'.

Share plans

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

Share awards comprise upfront shares and deferred shares. The entitlement to the deferred shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. A retention period of one 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)	
	2021	2020	2021	2020
Share awards outstanding - opening balance	21,284	17,330	29.16	36.63
Granted	10,927	23,647	40.32	20.09
Vested	-12,045	-19,619	35.53	28.45
Forfeited	-7,878	-74	28.76	34.79
Share awards outstanding - closing balance	**12,288**	**21,284**	**33.08**	**29.16**

In 2021, 7,173 share awards of NN Group Shares (2020: 10,631) were granted to the members of the Management Board of NN Leven. To other employees of NN Leven 3,754 share awards of NN Group shares (2020: 13,016) were granted.

As at 31 December 2021 the share awards of NN Group shares consisted of 12,288 share awards (2020: 21,284) relating to equity-settled share-based payment arrangements and no share 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 2021 total unrecognised compensation costs related to share awards amounted to EUR 194 thousand (2020: EUR 182 thousand). These costs are expected to be recognised over an average period of 1.3 years (2020: 1.3 years).

26 Interest expenses

Interest expenses

	2021	2020
Interest expenses on non-trading derivatives	98	89
Interest on lease liability	3	3
Other interest expenses	74	68
Interest expenses	**175**	**160**

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

In 2021, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 2,088 million and EUR 74 million respectively (2020: EUR 2,113 million and EUR 68 million respectively).

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

Notes to the Consolidated annual accounts continued

Total net interest income

	notes	2021	2020
Investment income	20	2,250	2,304
Interest expenses on non-trading derivatives		-98	-89
Interest on lease liability		-3	-3
Other interest expenses		-74	-68
Total net interest income		**2,075**	**2,144**

27 Other operating expenses

Other operating expenses

	2021	2020
Depreciation of property and equipment	5	4
Computer costs	67	62
Office expenses	0	8
Travel and accommodation expenses	0	1
Advertising and public relations	3	7
External advisory fees	22	18
Allocated staff expenses head office support functions	22	22
Allocated staff expenses services	44	44
Other	76	87
Other operating expenses	**239**	**253**

Other

'Other' also includes redundancy costs of EUR 17 million (2020: EUR 28 million), recharged by NN Group to NN Leven. The provision is reported on NN Group Level.

The salary costs of the employees in the Czech Republic have been recognised in the line 'Other' in the 'Other operating expenses' instead of under 'Staff expenses'.

Fees of auditors

Reference is made to Note 50 '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.

28 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 20 million (2020: EUR 69 million payable). It concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 18 'Other liabilities'.

Deferred tax (2021)

	Net liability 2020	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2021[1]
Investments	3,546	-966	-5	0	0	2,575
Real estate investments	906	0	198	-2	0	1,102
Acquisition costs	42	0	-2	0	0	40
Fiscal equalisation reserve	0	0	49	0	0	49
Insurance liabilities	-3,073	359	-131	-6	-2	-2,853
Cash flow hedges	3,939	-964	0	0	0	2,975
Other provisions	-7	0	0	6	0	-1
Receivables	0	0	0	0	0	0
Loans	0	0	0	0	0	0
Unused tax losses carried forward	-21	0	-7	0	0	-28
Other	29	-5	1	0	0	25
Deferred tax	**5,361**	**-1,576**	**103**	**-2**	**-2**	**3,884**
Presented in the balance sheet as:						
Deferred tax liabilities	5,361					3,917
Deferred tax assets	0					-33
Deferred tax	**5,361**					**3,884**

1 Positive amounts are liabilities, negative amounts are assets.

Notes to the Consolidated annual accounts continued

Deferred tax (2020)

	Net liability 2019	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2020
Investments	2,332	1,211	4	-1	0	3,546
Real estate investments	768	0	139	-1	0	906
Acquisition costs	44	0	-1	-1	0	42
Insurance liabilities	-2,416	-421	-236	0	0	-3,073
Cash flow hedges	2,389	1,550	0	0	0	3,939
Other provisions	0	0	-6	-1	0	-7
Receivables	-1	0	0	1	0	0
Loans	-2	0	0	2	0	0
Unused tax losses carried forward	-22	0	3	-2	0	-21
Other	22	7	0	0	0	29
Deferred tax	**3,114**	**2,347**	**-97**	**-3**	**0**	**5,361**
Presented in the balance sheet as:						
Deferred tax liabilities	3,114					5,361
Deferred tax assets	0					0
Deferred tax	**3,114**					**5,361**

1 Positive amounts are liabilities, negative amounts are assets.

Deferred tax on unused tax losses carried forward

	2021	2020
Total unused tax losses carried forward	215	235
Unused tax losses carried forward not recognised as a deferred tax asset	-118	-151
Unused tax losses carried forward recognised as a deferred tax asset	**97**	**84**
Average tax rate	28.9%	25.0%
Deferred tax asset	**28**	**21**

Total unused tax losses carried forward analysed by term of expiration

	No deferred tax asset recognised		Deferred tax asset recognised	
	2021	2020	2021	2020
More than 5 years but less than 10 years	0	0	0	0
Unlimited	118	151	97	84
Total	**118**	**151**	**97**	**84**

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

Taxation on result

	2021	2020
Current tax	343	451
Deferred tax	104	-97
Taxation on result	**447**	**354**

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

	2021	2020
Result before tax	3,055	1,681
Weighted average statutory tax rate	25.0%	24.9%
Weighted average statutory tax amount	**763**	**419**
Participation exemption	-292	-79
Other income not subject to tax and other	-7	3
Expenses not deductible for tax purposes	4	4
Impact on deferred tax from change in tax rates	0	22
Deferred tax benefit from previously not recognised amounts	-10	2
Tax for non-recognised losses	-12	-1
Write down/reversal of deferred tax assets	0	2
Adjustments to prior periods	1	-18
Effective tax amount	**447**	**354**
Effective tax rate	**14.6%**	**21.0%**

In 2021, the effective tax rate of 14.6% was lower than the weighted average statutory tax rate of 25%. This is mainly a result of tax exempt results of associates and participations.

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In 2020, the effective tax rate of 21.0% was lower than the weighted average statutory tax rate of 24.9%. This was mainly a result of tax exempt results of associates and participations as well as a benefit following a reassessment of prior year tax liabilities in the Netherlands following the filing of the relevant tax return. This was partly offset by a change in the Dutch corporate income tax rate.

In 2021, the Dutch corporate income tax rates were amended, so that the tax rate for 2022 will increase from 25% to 25.8%. As a result, the deferred tax assets and liabilities of NN Leven were remeasured in 2021 to the enacted new rate. The net impact of the tax rate change in 2021 was EUR nihil.

Taxation on components of other comprehensive income

	2021	2020
Unrealised revaluations property in own use	0	1
Unrealised revaluations Available for sale investment and other	1,128	-1,259
Realised gains/losses transferred to the profit and loss account	14	279
Changes in cash flow hedge reserve	971	-1,555
Deferred interest credited to policyholders	-359	421
Income tax	**1,754**	**-2,113**

29 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2021	2020	2021	2020
Financial assets				
Cash and cash equivalents	233	261	233	261
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	27,229	23,742	27,229	23,742
– non-trading derivatives	6,137	14,022	6,137	14,022
– designated as at fair value through profit or loss	430	440	430	440
Available-for-sale investments	68,093	73,244	68,093	73,244
Loans	42,870	43,098	40,220	40,228
Financial assets	**144,992**	**154,807**	**142,342**	**151,937**
Financial liabilities				
Subordinated debt	1,192	1,257	1,120	1,149
Other borrowed funds	531	289	531	290
Investment contracts for risk of company	927	1,011	904	956
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	1,681	3,369	1,681	3,369
Financial liabilities	**4,331**	**5,926**	**4,236**	**5,764**

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.

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments'. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 becomes effective for NN Leven on the same date as IFRS 17, the information in the table below is based on the assets held, and business models in place on 31 December 2021.

Fair value of financial assets - SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2021	2020	2021	2020	2021	2020
Cash and cash equivalents	0	0	0	0	233	261
Financial assets at fair value through profit or loss:						
– investments for risk of policyholders	0	0	0	0	27,229	23,742
– non-trading derivatives	0	0	0	0	6,137	14,022
– designated as at fair value through profit or loss	0	0	0	0	430	440
Available-for-sale investments	57,619	63,126	2,914	2,516	7,560	7,603
Loans	42,801	42,972	62	118	7	8
Financial assets	**100,420**	**106,098**	**2,976**	**2,634**	**41,596**	**46,076**

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The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date ('exit price'). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Substantial trading markets do not exist for all financial instruments, therefore 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

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 has 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.

Notes to the Consolidated annual accounts continued

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 carried at fair value (2021)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	26,500	4	725	27,229
Non-trading derivatives	29	6,108	0	6,137
Financial assets designated as at fair value through profit or loss	262	168	0	430
Available-for-sale investments	48,431	15,888	3,774	68,093
Financial assets	**75,222**	**22,168**	**4,499**	**101,889**
Financial liabilities				
Non-trading derivatives	18	1,651	12	1,681
Financial liabilities	**18**	**1,651**	**12**	**1,681**

Methods applied in determining the fair value of financial assets and liabilities carried at fair value (2020)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	22,897	58	787	23,742
Non-trading derivatives	0	14,022	0	14,022
Financial assets designated as at fair value through profit or loss	320	120	0	440
Available-for-sale investments	54,370	16,299	2,575	73,244
Financial assets	**77,587**	**30,499**	**3,362**	**111,448**
Financial liabilities				
Non-trading derivatives	13	3,339	17	3,369
Financial liabilities	**13**	**3,339**	**17**	**3,369**

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 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.

Notes to the Consolidated annual accounts continued

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 (2021)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets - opening balance	787	0	2,575	3,362
Amounts recognised in the profit and loss account	-41	0	-18	-59
Revaluation recognised in other comprehensive income (equity)	0	0	386	386
Purchase	0	0	1,077	1,077
Sale	-21	0	-50	-71
Maturity/settlement	0	0	-108	-108
Transfers into Level 3	0	0	11	11
Transfers out of Level 3	0	0	-120	-120
Exchange rate differences	0	0	21	21
Level 3 Financial assets - closing balance	**725**	**0**	**3,774**	**4,499**

Changes in Level 3 Financial assets (2020)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets - opening balance	802	0	1,215	2,017
Amounts recognised in the profit and loss account	-2	0	-69	-71
Revaluation recognised in other comprehensive income (equity)	0	0	53	53
Purchase	0	0	1,421	1,421
Sale	-13	0	-46	-59
Maturity/settlement	0	0	-1	-1
Exchange rate differences	0	0	-15	-15
Level 3 Financial assets - closing balance	**787**	**0**	**2,575**	**3,362**

Changes in Level 3 Financial liabilities (2021)

	Non-trading derivatives
Level 3 Financial liabilities - opening balance	17
Amounts recognised in the profit and loss account	-5
Sale	0
Transfers out of Level 3	0
Level 3 Financial liabilities - closing balance	**12**

Changes in Level 3 Financial liabilities (2020)

	Non-trading derivatives
Level 3 Financial liabilities - opening balance	9
Amounts recognised in the profit and loss account during the year	8
Sale	0
Transfers out of Level 3	0
Level 3 Financial liabilities - closing balance	**17**

Level 3 – Amounts recognised in the profit and loss account during the year (2021)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-41	0	-41
Available-for-sale investments	-18	0	-18
Amounts recognised in the profit and loss account during the year	**-59**	**0**	**-59**
Financial liabilities			
Non-trading derivatives	-5	0	-5
Financial liabilities	**-5**	**0**	**-5**

Notes to the Consolidated annual accounts continued

Level 3 – Amounts recognised in the profit and loss account during the year (2020)

	Held at balance sheet date	Derecognised during the period	Total
Investments for risk of policyholders	-2	0	-2
Available-for-sale investments	-69	0	-69
Amounts recognised in the profit and loss account during the year	**-71**	**0**	**-71**
Financial liabilities			
Non-trading derivatives	8	0	8
Financial liabilities	**8**	**0**	**8**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2021 of EUR 101,889 million (2020: EUR 111,448 million) include an amount of EUR 4,499 million (4.4%) that is classified as Level 3 (2020: EUR 3,362 million (3.0%)). 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 4,499 million (2020: EUR 3,362 million) Level 3 investments EUR 725 million (2020: EUR 787 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 to nil as at 31 December 2021 (2020: nil).

Available-for-sale investments

The remaining EUR 3,774 million (2020: EUR 2,575 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 377 million (2020: EUR 258 million), being approximately 1.44 (before tax) (2020: 0.85% (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 2021 of EUR 12 million (2020: EUR 17 million) relates to non-trading derivative positions. These derivatives are used to for the longevity hedge. Reference is made to Note 31 'Derivatives and hedge accounting' for more information.

EUR 12 million relates to longevity hedges closed by NN Leven. It is estimated that a 5% increase in mortality assumptions for these longevity hedges would reduce result and equity before tax by EUR 13 million and a 5% decrease in mortality assumptions would increase result and equity before tax by EUR 17 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 values are disclosed) were determined as follows:

Methods applied in determining the fair value of financial assets and liabilities carried at amortised cost (2021)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	233	0	0	233
Loans	0	1,407	41,462	42,869
Financial assets	**233**	**1,407**	**41,462**	**43,102**
Financial liabilities				
Subordinated debt	532	659	0	1,191
Other borrowed funds	500	30	1	531
Investment contracts for risk of company	0	0	927	927
Financial liabilities	**1,032**	**689**	**928**	**2,649**

Methods applied in determining the fair value of financial assets and liabilities carried at amortised cost (2020)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	261	0	0	261
Loans	0	1,897	41,201	43,098
Financial assets	**261**	**1,897**	**41,201**	**43,359**
Financial liabilities				
Subordinated debt	575	682	0	1,257
Other borrowed funds	0	287	2	289
Investment contracts for risk of company	0	0	1,011	1,011
Financial liabilities	**575**	**969**	**1,013**	**2,557**

30 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' and 'Property and equipment' 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	
	2021	2020	2021	2020
Real estate investments	2,719	2,444	2,719	2,444
Property in own use	35	36	35	36
Fair value of non-financial assets	**2,754**	**2,480**	**2,754**	**2,480**

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

Methods applied in determining the fair value of non-financial assets (2021)

	Level 1	Level 2	Level 3	Total
Real estate investments	0	0	2,719	2,719
Property in own use	0	0	35	35
Non-financial assets	**0**	**0**	**2,754**	**2,754**

Methods applied in determining the fair value of non-financial assets (2020)

	Level 1	Level 2	Level 3	Total
Real estate investments	0	0	2,444	2,444
Property in own use	0	0	36	36
Non-financial assets	**0**	**0**	**2,480**	**2,480**

Notes to the Consolidated annual accounts continued

Changes in Level 3 Non-financial assets (2021)

	Real estate investments	Property in own use
Level 3 Non-financial assets - opening balance	2,444	36
Purchase	156	0
Revaluation recognised in equity during the year	0	0
Sale	-124	0
Amounts recognised in the profit and loss account during the year	241	-1
Changes in the composition of the group and other changes	2	0
Level 3 Non-financial assets - closing balance	**2,719**	**35**

Changes in Level 3 Non-financial assets (2020)

	Real estate investments	Property in own use
Level 3 Non-financial assets - opening balance	2,571	41
Purchase	66	0
Revaluation recognised in equity during the year	0	-4
Sale	-176	0
Amounts recognised in the profit and loss account during the year	-21	-1
Changes in the composition of the group and other changes	4	0
Level 3 Non-financial assets - closing balance	**2,444**	**36**

Level 3 – Amounts recognised in the profit and loss account during the year non-financial assets (2021)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	241	0	241
Property in own use	-2	0	-2
Level 3 - Amounts recognised in the profit and loss account during the year non-financial assets	**239**	**0**	**239**

Level 3 – Amounts recognised in the profit and loss account during the year non-financial assets (2020)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	16	-37	-21
Property in own use	-1	0	-1
Level 3 - Amounts recognised in the profit and loss account during the year non-financial assets	**15**	**-37**	**-22**

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 (CMT), capitalisation of income (CI) methods and/or discounted cash flow (DCF) 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.

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.

Notes to the Consolidated annual accounts continued

These assumptions were in the following ranges:

Significant assumptions

	Fair value	Valuation technique	Current rent/m2	ERV/m2	Net initial yield (%)	Vacancy (%)	Average lease term in years
The Netherlands							
Office	155	DCF	334 - 345	330 - 356	3.7 - 4.2	0 - 4.3	5.1
Residential	67	DCF	211	239	3.3	4	
Industrial	183	DCF	53-56	55	2.9 - 3.6		4.7
Retail	12	DCF	133	198	5.0	35.7	7.2
Ground positions	16	Residual approach					
Germany							
Retail	242	DCF	184 - 313	175 - 314	4.3 - 4.6	10.9	3.6
Industrial	278	DCF	48 - 87	54 - 87	3.4 - 4.6	2.2	7.4
France							
Office	76	DCF	623	617	3.4		5.4
Residential	209	DCF	260 - 388	213 - 336	3.7 - 4.4	4.3	3.3
Industrial							
Industrial	366	DCF	45 -70	45 -72	3.5 - 4.5		4.5
Residential	13	Comparison approach	322	5			
Spain							
Retail	244	DCF	189 - 229	194 - 234	5.3 - 7.1	5.1	4.6
Industrial	117	DCF	0 - 44	28 - 42	1.0 - 6.2	8.8	3.1
Italy							
Retail	229	DCF	112 - 816	156 - 780	0.9 - 4.5	5.2	6.4
Industrial	33	DCF	42	44	4.6		3.4
Denmark							
Residential	120	DCF	217	311	3.6	0.9	
Industrial	65	DCF	155 - 167	144 - 154	4.4 - 5.0		11.5
Belgium							
Retail	119	DCF	83 - 342	99 - 322	4.9 -7.6	4.8	3.5
Industrial	35	DCF	44	43	4.5		1.7
Office	9	Income Capitalisation	224	196	5.3	14.4	6.7
Poland							
Retail	84	DCF	150	160	7.7	6.0	3.6
Real estate under construction and other	47						
Total Real estate	**2,719**						

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.

NN Leven uses quarterly appraisals by external valuers as main input for the determination of fair value of its real estate investments. The fair value is established using valuation methods that take into account recent comparable market transactions (CMT), capitalisation of income (CI) methods and/or discounted cash flow (DCF) calculations. In 2020, uncertainties related to the Covid-19 pandemic have led to the inclusion of 'material valuation uncertainty' clauses in certain external valuation reports. Such clauses do not imply that the valuation cannot be relied upon, but are used to indicate that – in the extraordinary circumstances – less certainty could be attached to valuations than would otherwise be the case. This was primarily the case for real estate investments in the retail sector. At the end of 2021, valuators no longer included such clauses in the valuation reports for assets in the portfolio of NN Leven. As for the different sectors the fair value of industrial and logistic real estate developed positive during the reporting period, as result of continuing favourable letting, capital markets and comparable market transactions, whereas for the retail sector, the vacancy and yield assumptions were updated as to be in accordance with the current (Covid-19 dominated) situation.

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31 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Leven uses derivatives (mainly 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.

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 hedged instrument and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are cash flow hedge accounting, fair value hedge accounting and net investment hedge accounting. The company's detailed accounting policies for these hedge models are set out in Note 1 Accounting policies in the section on Accounting policies for specific items.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Leven does not use IFRS-EU hedge accounting and mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If IFRS-EU hedge accounting is applied, it is possible that 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.

For 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 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 -12 million as per 31 December 2021 (2020: EUR -17 million). The hedge reduces the impact of longevity trend scenarios implying more improvement in life expectancy. The regulator approved including the effects of this specific hedge on the SCR. The purpose of the hedge is to reduce the net longevity risk.

Interest rate benchmark reform

Almost all hedge accounting applied by NN Leven relates to interest rate risk based on Euribor. The calculation method of Euribor changed during 2019 and Euribor will continue to be used after the benchmark reform. As a result, NN Leven expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. Furthermore, all of NN Leven Euribor based hedging instruments which are settled via clearing houses (the majority of NN Leven hedging instruments) have changed in July 2020 from EONIA to the Euro Short-Term Rate '€STR' as a reference rate to discount the future cash flows of the respective contracts in line with market practice. The remainder of NN Leven hedging instruments (primarily bilateral agreements) execute this change at the end of 2021, induced by market practice. This change does not impact the cash flows of the individual contracts, but only the calculation method of the fair value of the contracts.

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 Euribor based (forward starting) 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 2021, NN Leven recognised EUR -3,283 million (2020: EUR 3,278 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 2021 was EUR 11,590 million (2020: EUR 15,843 million) gross and EUR 8,600 million (2020: EUR 11,883 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 49 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 10 million expense (2020: EUR 2 million income) which was recognised in the profit and loss account.

As at 31 December 2021, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 3,728 million (2020: EUR 9,869 million), presented in the balance sheet as EUR 4,609 million (2020: EUR 10,028 million) positive fair value under assets and EUR 881 million (2020: EUR 159 million) negative fair value under liabilities. Included in 'Interest income' and 'Interest expenses on non-trading derivatives' is EUR 162 million (2020: EUR 191 million) and EUR 98 million (2020: EUR 88 million), respectively, relating to derivatives used in cash flow hedges.

Notes to the Consolidated annual accounts continued

Fair value hedge accounting

NN Leven's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2021, NN Leven recognised EUR nihil million (2020: EUR -186 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 -3 million (2020: EUR 186 million) fair value changes recognised on hedged items. This resulted in EUR – 3 million (2020: nil) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2021, the fair value of outstanding derivatives designated under fair value hedge accounting was nil (2020: nil), presented in the balance sheet as nil (2020: nil) positive fair value under assets and nil (2020: nil) negative fair value under liabilities.

32 Assets by contractual maturity

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

Assets by contractual maturity (2021)

	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	233	0	0	0	0	0	233
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]	0	0	0	0	0	27,229	27,229
– non-trading derivatives	0	41	6	35	6,055	0	6,137
– designated as at fair value through profit or loss	0	0	0	28	0	402	430
Available-for-sale investments	509	777	2,604	11,336	42,566	10,301	68,093
Loans	111	1,659	1,008	3,938	33,515	-11	40,220
Reinsurance contracts	4	29	68	176	230	693	1,200
Intangible assets	1	1	4	16	28	0	50
Deferred acquisition costs	3	7	28	122	75	0	235
Deferred tax assets	0	0	0	0	0	33	33
Other assets	1,018	292	2,051	8	1	0	3,370
Remaining assets (for which maturities are not applicable)[3]	0	0	0	0	0	9,580	9,580
Total assets	**1,879**	**2,806**	**5,769**	**15,659**	**82,470**	**48,227**	**156,810**

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 (2020)

	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	261	0	0	0	0	0	261
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]	0	0	0	0	0	23,742	23,742
– non-trading derivatives	0	144	3	195	13,680	0	14,022
– designated as at fair value through profit or loss	0	0	0	23	0	417	440
Available-for-sale investments	392	506	2,130	14,689	45,719	9,808	73,244
Loans	35	4,353	874	4,142	30,843	-19	40,228
Reinsurance contracts	5	34	69	365	394	570	1,437
Intangible assets	1	1	5	21	26	0	54
Deferred acquisition costs	2	4	18	114	97	0	235
Other assets	1,293	328	2,903	7	0	0	4,531
Remaining assets (for which maturities are not applicable)[3]	0	0	0	0	0	8,092	8,092
Total assets	**1,989**	**5,370**	**6,002**	**19,556**	**90,759**	**42,610**	**166,286**

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.

Notes to the Consolidated annual accounts continued

33 Liabilities by maturity

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

Non-financial liabilities, 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 44 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2021)

	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]	0	0	500	600	0	0	20	1,120
Other borrowed funds	30	500	1	0	0	0	0	531
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	13	71	243	937	7,327	0	-6,910	1,681
Financial liabilities	**43**	**571**	**744**	**1,537**	**7,327**	**0**	**-6,890**	**3,332**
Insurance and investment contracts	308	696	2,073	11,162	74,220	27,307	0	115,766
Deferred tax liabilities	2	0	0	0	3,613	302		3,917
Other liabilities	4,184	134	218	548	697	36	0	5,817
Non-financial liabilities	**4,494**	**830**	**2,291**	**11,710**	**78,530**	**27,645**	**0**	**125,500**
Total liabilities	**4,537**	**1,401**	**3,035**	**13,247**	**85,857**	**27,645**	**-6,890**	**128,832**
Coupon interest due on financial liabilities[3]	0	0	0	0	0	0	0	0

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 14 '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 (2020)

	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]	0	0	0	500	600	0	49	1,149
Other borrowed funds	108	0	66	30	86	0	0	290
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	27	90	132	966	2,295	0	-141	3,369
Financial liabilities	**135**	**90**	**198**	**1,496**	**2,981**	**0**	**-92**	**4,808**
Insurance and investment contracts	657	601	1,989	11,380	76,079	23,821	0	114,527
Deferred tax liabilities	0	0	0	4	5,126	231		5,361
Other liabilities	8,266	133	196	561	912	33	0	10,101
Non-financial liabilities	**8,923**	**734**	**2,185**	**11,945**	**82,117**	**24,085**	**0**	**129,989**
Total liabilities	**9,058**	**824**	**2,383**	**13,441**	**85,098**	**24,085**	**-92**	**134,797**
Coupon interest due on financial liabilities[3]	-2	0	0	0	0	0	0	-2

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 14 '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.

34 Assets not freely disposable

The assets not freely disposable relate primarily to investments of nil (2020: nil) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 35 'Transferred, but not derecognised financial assets'.

Notes to the Consolidated annual accounts continued

35 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

	2021	2020
Transferred assets at carrying value		
Available-for-sale investments	16,133	16,626
Associated liabilities at carrying value		
Other borrowed funds	530	203

36 Offsetting of financial assets and liabilities

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

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2021)

					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	4,003	0	4,003	-916	-3,082	5
Financial assets at fair value through profit or loss		**4,003**	**0**	**4,003**	**-916**	**-3,082**	**5**
Available-for-sale	Other	17	0	17	-5	-13	-1
Investments		**17**	**0**	**17**	**-5**	**-13**	**-1**
Total financial assets		**4,020**	**0**	**4,020**	**-921**	**-3,095**	**4**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2020)

					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	9,298	0	9,298	-2,274	-6,965	59
Financial assets at fair value through profit or loss		**9,298**	**0**	**9,298**	**-2,274**	**-6,965**	**59**
Available-for-sale	Other	38	0	38	-19	-19	0
Investments		**38**	**0**	**38**	**-19**	**-19**	**0**
Total financial assets		**9,336**	**0**	**9,336**	**-2,293**	**-6,984**	**59**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2021)

					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	1,109	0	1,109	-916	-189	4
Financial liabilities at fair value through profit or loss		**1,109**	**0**	**1,109**	**-916**	**-189**	**4**
Other items where offsetting is applied in the balance sheet		6	0	6	-5	-2	-1
Total financial liabilities		**1,115**	**0**	**1,115**	**-921**	**-191**	**3**

Notes to the Consolidated annual accounts continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2020)

					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	2,665	0	2,665	-2,274	-387	4
Financial liabilities at fair value through profit or loss		**2,665**	**0**	**2,665**	**-2,274**	**-387**	**4**
Other items where offsetting is applied in the balance sheet		40	0	40	-19	-21	0
Total financial liabilities		**2,705**	**0**	**2,705**	**-2,293**	**-408**	**4**

37 Contingent liabilities and commitments

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

Contingent liabilities and commitments (2021)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	315	653	2,116	2,684	114	343	6,225
Contingent liabilities and commitments	**315**	**653**	**2,116**	**2,684**	**114**	**343**	**6,225**

Contingent liabilities and commitments (2020)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	290	320	1,527	1,864	106	98	4,205
Contingent liabilities and commitments	**290**	**320**	**1,527**	**1,864**	**106**	**98**	**4,205**

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 2,215 million (2020: EUR 834 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 June 2020, the terms of the borrowing facility between Nationale-Nederlanden Interfinance B.V. (NNIF) and NN Leven were updated. The notional amount remained EUR 1,000 million.

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 2021 amounts to EUR 74 million (2020: EUR 52 million payable).

38 Legal proceedings

General

NN 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.

Notes to the Consolidated annual accounts continued

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. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

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

Woekerpolis.nl requested the District Court in Rotterdam to declare that NN Leven sold products which are defective in various respects. 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 Woekerpolis.nl and ruled that NN Leven has generally provided sufficient information on costs and premiums. Woekerpolis.nl has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court in Rotterdam. On 23 February 2021, the Court of Appeal in The Hague rendered an interim ruling submitting preliminary questions to the Dutch Supreme Court to obtain clarity on the interpretation of certain principle questions of law that are relevant in disputes concerning unit-linked policies. The questions concern the relationship between the specific Dutch regulations applicable to insurers regarding the provision of (pre)contractual information, and Dutch civil law and the impact thereon by European law. On 11 February 2022, the Supreme Court answered the questions of law submitted to it by the Court of Appeal in The Hague. The Supreme Court primarily considers that Dutch civil law is applicable to the legal relationship between insurer and policyholder. It is up to lower courts to decide whether Dutch civil law entails obligations to provide information in addition to the obligations arising from specific regulations and, if so, which obligations. The Supreme Court holds that potential additional information obligations must satisfy the criteria formulated by the European Court of Justice in the abovementioned judgment of 2015. The Supreme Court finds that, if the lower court were to decide that certain additional information obligations apply, the courts have to judge whether these information obligations 1) pertain to information that is clear and accurate, 2) are necessary for a proper understanding of the essential characteristics of the unit-linked policy, and 3) enable the insurer to identify with sufficient foreseeability the additional information that must be provided and that the policyholder may expect. The judgment has no direct consequences for customers with a unit-linked policy. The Court of Appeal in The Hague will now resume the collective proceedings between Woekerpolis.nl and Nationale-Nederlanden.

Consumentenbond alleges that NN Leven failed to adequately inform policyholders on cost charges, risk premium for life insurance cover and the leverage and capital consumption effect and that NN Leven provided misleading capital projections. Consumentenbond requested the District Court in Rotterdam to order a recalculation of certain types of unit-linked insurance products and to declare that NN Leven is liable for any damage caused by a lack of information and misleading capital projections. On 29 July 2020, the District Court in Rotterdam rejected all claims of Consumentenbond. The court ruled that NN Leven has provided sufficient information on the effect of costs and risk premiums for life insurance cover included in the gross premium, leading to agreement between parties (wilsovereenstemming) on these costs and risk premiums and on the manner in which these costs components are set off during the term of the insurance. Consumentenbond has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court.

Wakkerpolis primarily concentrates on the recovery of initial costs for policyholders by claiming 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 an interim ruling in the collective action initiated by Wakkerpolis rendered on 22 April 2020, the District Court in Rotterdam dismissed Wakkerpolis' claim to recalculate the value of unit-linked products without initial costs. With respect to unit-linked products issued after 1994, the District Court concluded that NN Leven complied with the precontractual information requirements prescribed by law and regulations applicable at the time and in principle all costs (including initial costs) were agreed upon by parties ('wilsovereenstemming'). With respect to unit-linked products issued before 1994, NN Leven is to demonstrate that for these unit-linked products it provided precontractual information on the (effect of) costs and risk premiums for life insurance cover included in the gross premium and net example capitals. For unit-linked products issued before 1 August 1999, the District Court ruled that policyholders were not sufficiently informed by NN Leven on the effect of costs on the surrender value or paid up value of a policy, leading to an absence in the agreement between parties ('leemte'). NN Leven is requested to inform the District Court whether the allocation system used by NN Leven to settle initial costs would negatively affect the value of policies in case of early surrendering or conversion into paid up policies, compared to another common allocation system used in the insurance industry. On 2 June 2021, the District Court rendered an interim judgment granting Wakkerpolis the right to supplement its claims. A final ruling in first instance is expected in Q2 2022.

Notes to the Consolidated annual accounts continued

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 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 and/or that these projected policy values were incorrect, (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 NN Leven to take (financial) measures that could have a substantial impact on the financial condition, results of operations, solvency or reputation of NN Leven. As a result of the public and political attention the unit-linked issue has received, it is also possible that sector-wide measures may be imposed by governmental authorities or regulators in relation to unit-linked products in the Netherlands. The impact on NN Leven of rulings made by courts or decision-making bodies, actions taken by regulators or governmental bodies against other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs), may be determined not only by market share but also by 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.

Dispute on reinsurance agreement

NN Leven had reinsured with another insurance company part of the exposure on certain insured pension obligations. The counterparty acknowledged the existence of a reinsurance arrangement, but disputed the applicability of fundamental aspects of the reinsurance agreement. NN Leven started legal proceedings in 2019. A provision was recognised in 2019. In 2021, both parties agreed on a settlement. As a result, the reinsurance was cancelled and a settlement amount was received. The net positive impact of the settlement was recognised in 2021.

39 Principal subsidiaries

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

Principal subsidiaries of NN Leven

Subsidiary	Statutory place	Proportion of ownership interest held by NN Leven 2021	2020
REI Investment I B.V.	The Hague, the Netherlands	80%	85%
REI Diaphane Fund FGR	The Hague, the Netherlands	80%	85%
Private Equity Investments II B.V.	The Hague, the Netherlands	86%	86%
Private Equity Investments B.V.	The Hague, the Netherlands	94%	94%
Infrastructure Equity Investments B.V.	The Hague, the Netherlands	95%	100%
Private Debt Investments B.V.	The Hague, the Netherlands	100%	100%

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Principal subsidiaries of REI Investment I B.V.

Subsidiary	Statutory place	Proportion of ownership interest held by REI Investment I B.V. 2021	2020
REI Belgium Warande B.V.	Schiphol, the Netherlands	100%	100%
REI Belgium Puurs N.V.	Brussels, Belgium	100%	100%
REI Belgium Evere	Brussels, Belgium	100%	100%
REI Belgium Gent	Brussels, Belgium	100%	100%
REI Belgium Mechelen	Brussels, Belgium	100%	100%
REI Belgium Fonsny	Brussels, Belgium	100%	100%
Grupo Berkley Tres S.L.U.	Madrid, Spain	100%	100%
REI Spain Vitoria S.L.	Vitoria-Gasteiz, 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 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%
REI Denmark Kastrup ApS	Copenhagen, Denmark	100%	100%
REI Italy Anzola 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%
Italian High Street Retail Fund	Milan, Italy	100%	100%
Stadtgalerie Heilbronn GmbH & Co KG	Frankfurt, Germany	95%	95%
REI Altenwerder GmbH & Co KG	Frankfurt, Germany	100%	100%
LZA III Mobi GmbH	Frankfurt, Germany	100%	100%
LZA III Altenwerder Grundstückverwaltung GmbH	Frankfurt, Germany	100%	100%
REI Germany Bergkirchen B.V.	The Hague, the Netherlands	100%	100%
REI Logistics Bergkirchen GmbH & Co KG	Frankfurt, Germany	94%	94%
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 SAS	Paris, France	100%	100%
INS Investment France SCI	Paris, France	100%	100%
INS II SCI	Paris, France	100%	100%
INS III SCI	Paris, France	100%	100%
INS Jonage SCI	Paris, France	100%	100%
INS Criquebeuf SCI	Paris, France	100%	100%
INS Pusignan SCI	Paris, France	100%	100%
INS MER SCI	Paris, France	100%	100%
INS Saint Priest SCI	Paris, France	100%	100%
INS Saint-Vulbas SCI	Paris, France	100%	100%
INS Satolas SCI	Paris, France	100%	100%
REI France Logistics SAS	Paris, France	100%	100%
Brie Logistique SAS	Paris, France	100%	100%
Chelles SAS	Paris, France	100%	100%
Les Arpajons SAS	Paris, France	100%	100%
Logistique Portefeuille SAS	Paris, France	100%	100%
Marolles 91 SAS	Paris, France	100%	100%
France Campus Acrueil SNC	Paris, France	100%	100%
France Campus Bagneux SNC	Paris, France	100%	100%
France Campus Holding SAS	Paris, France	100%	100%
France Campus Massy SNC	Paris, France	100%	100%
France Campus AIX SNC	Paris, France	100%	100%
France Campus Levallois SNC	Paris, France	100%	100%
INS Holding Levallois SAS	Paris, France	100%	100%
France Campus Guyancourt SNC	Paris, France	100%	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 Netherlands Amstelveenseweg B.V.	The Hague, the Netherlands	100%	100%
VGI Orionweg Moerdijk B.V.	The Hague, the Netherlands	100%	100%
REI Fund Netherlands 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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40 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 third-party managed structured entities relates to asset-backed securities (ABS) classified as loans. Reference is made to Note 6 'Loans' where the ABS portfolio is disclosed.

The majority of the investments in equity instruments of third-party managed 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 that are not originated or managed by NN Leven for an amount of EUR 8,175 million (2020: 6,120 million).

NN Leven has significant influence over some of its real estate investment funds as disclosed in Note 7 'Associates and joint ventures'.

41 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
- NN Personeel: reference is made to Note 25 'Staff expenses'.
- Transactions with NN Group concerning the payment of taxes as NN Group heads the fiscal unity. Reference is made to Note 37 'Contingent liabilities and commitments'.
- Transactions relating to the remuneration of board members. Reference is made to Note 42 'Key management personnel compensation'.
- The management of financial instruments takes place via a management agreement with NN Investment Partners Holdings N.V.
- Facility services carried out by group companies.
- An overview of the internal borrowing facilities is disclosed under Note 45 'Capital and liquidity management'
- Transactions relating the sale of the mortgage portfolios of EUR 22 million from NN Leven to Hypenn RMBS I B.V. and EUR 36 million to Nationale-Nederlanden Bank N.V.
- The derivatives transactions are conducted mainly via NNIF. The unrealised revaluations of derivatives recognised in the result of NN Leven for the 2021 financial year amount to EUR -543 million (2020: EUR 667 million).

Reinsurance activities through NN Re

The results of the insurance activities of NN Leven's Czech branch are fully reinsured through NN Re.

Given that the Czech branch reported a positive result of EUR 13.6 million (2020: EUR 13.2 million), an expense of EUR 13.4 million (2020: EUR 12.9 million) under the reinsurance contract is recognised in the result of NN Leven. The difference of EUR 0.2 million (2020: EUR 0.3 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 1,127 million (2020: EUR 1,063 million).

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Income and expenses from NN Leven recharged to NN Group companies

	Parent companies		Other group companies			Total
	2021	2020	2021	2020	2021	2020
Expenses	0	0	29	22	29	22
Investment income	0	0	198	1,745	198	1,745
Income and expenses from NN Leven recharged to NN Group companies	**0**	**0**	**227**	**1,767**	**227**	**1,767**

Income and expenses from NN Group companies recharged to NN Leven

	Parent companies		Other group companies			Total
	2021	2020	2021	2020	2021	2020
Expenses	61	66	580	557	641	623
Investment income	11	28	1,555	7	1,566	35
Income and expenses from NN Group companies recharged to NN Leven	**72**	**94**	**2,135**	**564**	**2,207**	**658**

Financial assets and liabilities with related parties

	Parent companies		Other group companies			Total
	2021	2020	2021	2020	2021	2020
Financial assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives	0	0	2,133	4,725	2,133	4,725
Loans	1,524	4,270	123	132	1,647	4,402
Other assets	1,701	2,545	119	113	1,820	2,658
Financial assets	**3,225**	**6,815**	**2,375**	**4,970**	**5,600**	**11,785**
Financial liabilities						
Subordinated loan	600	600	0	0	600	600
Other borrowed funds	0	0	0	85	0	85
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	363	563	363	563
Other liabilities	33	32	1,466	1,402	1,499	1,434
Financial liabilities	**633**	**632**	**1,829**	**2,050**	**2,462**	**2,682**

42 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[1]

Amounts in thousands of euros	2021	2020
Fixed compensation:		
– base salary	1,587	1,716
– pension costs[2]	122	132
– individual saving allowance[2]	272	259
- termination benefit	320	1,447
Variable compensation:		
– upfront cash	84	142
– upfront shares	84	142
– deferred cash	96	158
– deferred shares	96	158
Other benefits	222	307
Fixed and variable compensation	**2,883**	**4,461**

1 Reference is made to Composition of the Boards during 2021 on page 3.
2 The pension costs consist of an amount of employer contribution (EUR 122 thousand) and an individual savings allowance (EUR 272 thousand, which is 23,3% of the amount of base salary above EUR 112,189).

The Management Board members were eligible for a range of other emoluments, such as health care insurance and expat allowances. The Management Board members were also able to obtain banking and insurance services in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands.

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Leven Supervisory Board members do not receive any compensation for their activities, except for one Supervisory Board member who is not an employee of NN Group (2020: one external Supervisory Board member). The remuneration of EUR 26,313 (2020: EUR 28,624) is recognised in the profit and loss account in 'Operating expenses'. Some Supervisory Board members hold remunerated (Board) positions within NN Group, but not within NN Leven. Their remuneration is part of the allocation of headquarter expenses, and they do not receive any (additional) allowances for their role as Supervisory Board members. NN Leven does not provide the Supervisory Board with a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in shares.

Notes to the Consolidated annual accounts continued

The remuneration of the Supervisory Board member includes VAT. NN Leven does not provide the Supervisory Board with a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in stock.

The total remuneration of EUR 2,883 thousand (2020: EUR 4,461 thousand), as disclosed in the table above, includes all variable remuneration related to the performance year 2021. 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 2021 and therefore included in 'Total expenses' in 2021, relating to the fixed expenses of 2021 and the vesting of variable remuneration of earlier performance years, is EUR 2,786 thousand (2020: EUR 4,388 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 risk management
- Comply with and support the spirit of the (inter)national regulations on remuneration policies
- Aim to avoid improper treatment of customers and employees
- Create a balanced compensation mix with a reduced emphasis on variable compensation
- Claw back and hold back arrangements
- Attract and retain talented personnel
- The variable remuneration is linked to clear targets. These targets are for a large part non-financial.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
Amounts in thousands of euros	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Management Board members	1,274	1,203	3.3%	3.4%	89	254
Loans and advances to key management personnel	**1,274**	**1,203**	**3.3%**	**3.4%**	**89**	**254**

The loans and advances provided to members of the Management consist of mortgage loans. The total amount of redemptions of these mortgage loans during 2021 was EUR 89 thousand (2020: EUR 254 thousand).

43 Subsequent events

Dividend distribution

In March 2022, NN Leven made a dividend distribution of EUR 245 million from the Other reserves to its shareholder NN Nederland. The solvency ratio per year end 2021 has not been adjusted for this dividend payment.

ABN AMRO life insurance subsidiary

In February 2022 NN Group, ABN AMRO Bank and their joint venture ABN AMRO Verzekeringen (AAV) announced that they have reached an agreement to sell AAV's life insurance subsidiary to NN Leven for a total consideration of EUR 253 million. The transaction is in line with NN Leven's strategy to achieve further efficiencies by leveraging our existing closed book capabilities. AAV is a joint venture between NN Group (51%) and ABN AMRO Bank (49%). The life insurance subsidiary of AAV, ABN AMRO Levensverzekering N.V. (AAL), is intended to be integrated into NN Leven. The transaction will be funded from existing cash resources. The transaction is subject to regulatory approvals and is intended to close in the second half of 2022. Following closing, the life insurance subsidiary of AAV will be consolidated by NN Leven. AAL is expected to merge with NN Leven in the course of the coming years.
The transaction is subject to regulatory approvals and is expected to close in the second half of 2022.

Summarised information ABN AMRO Levensverzekering N.V. [1]

	2020
Total assets	4,149
Total liabilities	4,025
Total income	299
Total expenses	263
Net result recognised in period	36
Other comprehensive income recognised in period	4
Dividends paid	0

1 All on 100% basis.

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44 Risk management

Introduction

Accepting and managing risks is an integral part of insurance, banking and investment management business and therefore, risk management is fundamental. Appropriate risk management enables NN Leven to meet obligations towards clients, regulators and other stakeholders.

The Risk Management paragraph has the following structure:

I. Covid-19; impact of the Covid 19 pandemic on NN Leven during 2021
II. Risk Management System, consisting of:
III. Risk Governance, based on the Three lines of defence model; and
IV. Risk Control Cycle, covering Risk Strategy (incl. Risk Appetite Statements, Limits and Tolerances), Risk Assessment, Risk Monitoring, Risk Reporting and Risk Culture
V. Risk Profile, categorised into:
VI. Strategic and emerging risks including climate change
VII. Financial risks (based on the structure of our internal model); and
VIII. Non-Financial risks

NN Leven has one international branch in the Czech Republic. The insurance risks of the Czech branch are reinsured to NN Re. We exclude the Czech branch from this Risk Management Paragraph.

Key risks as identified in 2021 by the Management Board in the strategic risk assessment include business model sustainability, managing ongoing expenses, regulatory changes and its impact on business decisions and longevity.

I. Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic continues to cause significant disruption to society and the world-wide economy, impacting NN Leven, its customers, employees and other stakeholders. Financial markets experience higher volatility and the broader world-wide economy has been significantly impacted by (partial) lockdowns and other social distancing measures. Impact is unevenly distributed between sectors in the economy as well as between the rich and the poor (both on country and on individual level). Governments and central banks worldwide are responding to the macroeconomic impact of this crisis with aid packages and further support measures. While the impact of the crisis on society as a whole is significant, NN Leven so far has shown to be relatively resilient to financial markets volatility mainly due to our conservative investment strategy, close matching of assets and liabilities, and sufficient capital levels. Most of our staff are able to work from home, and our business continues as usual using remote working and digital channels.

The most significant Covid-19 related risks that NN Leven is facing in the current context are related to the political and regulatory environment (how governments and supervisors respond to the crisis), volatility in financial markets (including interest rates, equity prices, inflation and spreads) and operational risk (continuity and security of business processes). NN Leven is constantly monitoring the developments and the (potential) impact on NN Leven:

- A dedicated Covid-19 coordination team met regularly to monitor developments in different areas, discuss our response, and set into motion required actions. The Covid-19 coordination team has regular contact with internal and external stakeholders, such as with supervisors DNB and AFM, senior management and employees, to communicate any changes to corporate policies, remedial actions required and regular progress reporting.
- Monitoring of financial markets: To make sure financial positions are monitored, and losses avoided or mitigated, several financial indicators related to volatility and liquidity of markets are monitored, for example interest rates, inflation rates, equity prices, bond spreads, etc.
- We applied stress testing and scenario analysis to assess impact of financial market developments on our solvency and liquidity positions. As part of scenario analysis, we analysed both the impact of a prolonged Covid-19 crisis when vaccine-resistant mutations arise, as well as scenarios where Covid-19 will become endemic, meaning the pandemic will not end with the virus disappearing, but that enough people will gain immunity protection from vaccination or natural infection such that there will be less transmission and much less Covid-19-related hospitalisation and death, even as the virus continues to circulate.
- Monitoring of impact on customers: Monitoring morbidity and mortality rates (customers passing away due to Covid-19), claim rates from customers getting sick by Covid-19 or longer disability where treatments are postponed, lapse and prepayment behaviour, and whether products still fit customer' needs.
- Monitoring of third parties and business partners: To ensure that services outsourced by NN Leven, are delivered according to agreed service levels, and to ensure that our sales and support networks via tied agents and brokers remain healthy, and extra measures are taken as necessary.
- Monitoring business continuity and IT security: To make sure that customers can be serviced in a normal way using our digital channels, where necessary via accelerated digital initiatives, to ensure that NN Leven's employees could work safely from home and to make sure financial market operations and payments could continue as normally as possible, while potential IT (security) risks are mitigated.

We will continue to monitor further developments related to the Covid-19 pandemic, and adjust our response accordingly. Where relevant, in the rest of this Note 44 we discuss the impact of the Covid-19 pandemic on the different risk types in more detail.

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II. Risk Management System

III. Risk Governance / System of Governance
NN Leven's System of Governance comprises amongst others the following elements:

- General governance elements, including amongst others reporting lines, decision structures, company policies, and segregation of duties,
- Remuneration,
- Persons who effectively run NN Leven or have other key functions, who should be "Fit and Proper",
- Key Functions: the Risk Management, Compliance, Actuarial and Internal Audit Functions,
- System of Risk Management and Internal Control,
- Investment activities, based on the Prudent Person Principle,
- Capital Management, and
- Managing and overseeing outsourcing critical or important operational functions and activities.

In 2021, a review of NN Leven's System of Governance, as required under Solvency II was conducted by the Management Board and the outcomes were discussed with the Supervisory Board. The review was based, amongst others, on self-assessments by each Key Function on its compliance with requirements and on its operational effectiveness, as well as on a self-assessment on the effectiveness of the NN Leven System of Risk Management and Internal Control (challenged by the Risk Management and Compliance Key Functions). Overall, whilst some improvement areas were identified with actions defined and taken, the Management Board concluded that NN Leven's System of Governance is adequate and effective, supports its strategic objectives and operations and provides for sound and prudent management of the business.

NN Leven's risk governance follows the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for NN Leven's risk management. This structure has been embedded in each of NN Leven's organisational layers.

Three lines of defence
The *three lines of defence* defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This concept helps to ensure that risk is managed in line with the risk appetite as defined by the Management Board of NN Leven and cascaded throughout NN Leven.

- First line of defence consists of the CEO of NN Leven and the other first line management board members that collectively make business decisions, with primary accountability for financial performance, sales, operations, investments and related risks affecting their businesses. NN Leven designs and sells products that reflect local needs and thus knows its customers and is well-positioned to act in both the customers' and NN Leven's best interest.
- Second line of defence consists of independent oversight functions, most notably risk management, model validation, actuarial, compliance and legal functions. Those functions support the commercial departments in their decision-making and provide sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. The model valuation function is outsourced to NN Group. Second line functions have the following responsibilities:
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinating the reporting of risks
  - Supporting the first line of defence in making proper risk-return trade-offs
  - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Leven.
- Third line of defence: Corporate Audit Services (CAS) provides independent assurance on the effectiveness of NN Leven's business and support processes, including governance, quality of risk management and quality of internal controls. CAS assesses first line of defence activities as well as second line of defence activities.

Executive Management – First line of defence
Management Board
The Management Board is responsible for the strategic direction of the company, the day-to-day management, and for ensuring that the company has adequate internal risk management and control systems in place so that it is aware, in good time, of any material risks the company has and that these risks can be managed properly. The Management Board retains ultimate responsibility for NN Leven's risk management whilst delegating certain powers to the Crisis Committee, Asset and Liability Committee (ALCO), Non-financial Risk Committee (NFRC) and Model Committees (MoC).

NN Leven may independently perform all activities that are consistent with the strategy of NN Group and the approved (three year) business plan (the 'Business Plan') as long as these are consistent and compliant with the internal risk management and 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 Management Board members and Support Function Head(s) at Head Office.

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The Chief Executive Officer (CEO) is responsible for:
- Execution of the strategy, that conforms to the strategic framework of NN Group, and the financial performance of business and operational activities, as well as managing the related risks
- Ensuring that the business operates in compliance with laws and regulations, NN Group policies and standards and internal controls
- Fulfilling their statutory responsibilities
- Operating a sound internal risk and control system and operating in accordance with NN Group's values
- Viability of NN Leven in the long term

Regular interaction between Head Office and the NN Leven risk oversight functions takes place with respect to, amongst others, product approval, mandate approval, risk limit setting, risk reporting, Own Risk and Solvency Assessment (ORSA), policy setting and implementation monitoring, model and assumption review and validation. This covers all types of risks, both financial and non-financial risks.

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

Risk, Compliance and Actuarial - Second line of defence
Risk Management Function
Within the Management Board, the Chief Risk Officer (CRO) is entrusted with the day-to-day execution of the Risk Management Function.

The NN Leven CRO steers an independent risk organisation which supports the first line in their decision-making, with sufficient countervailing power to prevent excessive risk taking. The NN Leven CRO is also responsible for the organisation of Risk at NN Leven. The NN Leven CRO is member of the NN Leven Board and reports hierarchically to the NN Leven CEO and functionally to the NN Group CRO. The CEO is primarily responsible for the communication of risk-related topics to the NN Group Management Board and NN Leven Supervisory Board.

Responsibilities of the Risk Management Function include:
- Setting and monitoring compliance with NN Leven's overall risk policies issued by the Risk Management Function
- Formulating NN Leven's risk management strategy and ensuring that it is implemented throughout NN Leven
- Supervising the operation of NN Leven's risk management and business control systems
- Reporting of NN Leven's risks, as well as the processes and internal controls
- Making risk management decisions with regard to matters which may have an impact on the financial results of NN Leven or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management.
- Sharing best practices across NN Leven

The NN Leven CRO has co-responsibility together with the business (first line) for risk in NN Leven and to translate the risk appetite into methodologies and policies to support and monitor management's control of risk. The CRO ensures that dashboards and other risk measurement tools are appropriately maintained and developed. The CRO is ultimately responsible for all risk related information required for financial reports and statements.

At NN Leven, the CRO acts in his role as Risk Management Function Holder accordingly to the Solvency II directive article 44 – Risk Management and delegates related tasks respectively to the Head of Non-Financial Risk Management, Head of Financial Risk Management and Head of Insurance Risk Management.

Model Validation Function
The Model Validation Function is internally outsourced to NN Group and aims to ensure that all material Cash Flow models and Risk models are fit for their intended use. For this purpose, the Model Validation Function carries out validations of risk and valuation models in particular those related to Solvency II. The findings of the Model Validation Function are regularly reported to the NN Leven Model Committees. (Changes to) models and their disclosed metrics are approved by one of the two NN Leven Model Committees (Pricing and Valuation model committee, and Risk model committee) and where appropriate, depending on materiality, require approval from either the Group CRO and Group Chief Financial Officer (CFO) or the NN Group Management Board, following advice from the NN Group Model Committee. These committees are responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Leven.

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 life cycle: at initiation, prior to approval, when the model has been redeveloped or modified, and on a regular basis, based on a planning discussed and agreed with the Model Development departments. It is not only a 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 covers a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle determines the maximum period between two model validations, which can be up to five years. This means that each model in scope will be independently validated at least once within the validation cycle. In general, the length of the validation cycle relates to the relative materiality of the models in scope. Model Validation can also start validating before the due date, for example following specific portfolio/market developments or regulatory changes. Materiality of a model is determined based on quantitative and qualitative criteria.

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Quantitative criteria relate to amongst others, a percentage of Market Value of Liabilities/Assets, or Solvency Capital Requirement. Qualitative criteria cover model complexity, strategic importance and other factors.

Depending on materiality of the model, as well as the severity of findings resulting from a model validation, models receive a Validation Opinion. Models with severe findings require remediation actions by management, such as further adjustments of the model.

Compliance Function

To effectively manage business conduct risk the Management Board has a Compliance Function which is headed by the Head of Legal & Compliance who has delegated the responsibility for day-to-day management of the Compliance Function to the Local Compliance Officer. 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. Within NN Leven's broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate rules, regulations and laws for the effective management of risks in scope of the compliance function
- Proactively work with and advise the business to manage business conduct and product suitability risk throughout NN Leven's products' life cycle and business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defence 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 compliance practices throughout the business by using a risk based approach to align business outcomes with NN Leven's risk appetite
- Deepen the culture of compliance 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
- Monitor that management and employees act in accordance with NN Leven's policies and standards in scope of the function, as well as relevant material laws and regulation.

The Head of Legal & Compliance reports hierarchically to the CEO of NN Leven and functionally to the General Counsel of NN Group. The Local Compliance Officer as key function holder reports functionally to the Chief Compliance Officer of NN Group.

Actuarial Function

The primary objective of the Actuarial Function, that reports hierarchically to the CRO of NN Leven, is to ensure that technical provisions (under Solvency II and IFRS) are reliable and adequate, and as such that NN Leven is able to meet its obligations towards policyholders and to protect NN Leven from loss or reputational damage.

The Actuarial Function operates within the context of NN Leven's broader risk management system, reports hierarchically to the CRO of NN Leven and has a functional reporting line to the NN Group Chief Actuary. The Actuarial Function of NN Leven has unrestricted access to the NN Leven Management Board and NN Leven Supervisory Board in relation to Actuarial topics. This contributes to the financial solidity of NN Leven.

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, covering elements such as data quality, assumption setting, models and methods, as well as underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- Inform management and the supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the Actuarial Function Report
- 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's 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
- Provide second line opinion when first line business initiatives can materially impact the risk profile of NN Leven or NN Group and/or provide additional assurance for presented key first line risk related information.

Corporate Audit Services - Third line of defence

Internal Audit Function

The Internal Audit Function is internally outsourced to Corporate Audit Services NN Group (CAS). CAS is the internal audit department within NN Group, it is an independent assurance function and its responsibilities are established by the Executive Board of NN Group, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. CAS independently assesses the design and effectiveness of the organisation and the quality of procedures and control measures. CAS is an essential part of the corporate governance structure of NN Leven.

CAS keeps in close contact with home and local 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 and their impact on NN Leven and CAS. CAS also provides information like risk assessments and relevant (audit) reports.

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The General Manager and staff of CAS are authorized to:
- Obtain without delay, from General Managers within NN Leven, information on 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, 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.

In compliance with the Dutch Corporate Governance Code, the NN Group Executive Board is responsible for the role and functioning of CAS, supervised by the Supervisory Board, supported by the Audit Committee. The General Manager of CAS is accountable to the CEO and functionally to the chair of the Audit Committee. On a day-to-day basis the General Manager of CAS reports to the CEO.

IV. Risk Control Cycle

The business model exposes NN Leven to inherent risks and obligations. As such, the environment determines the playing field and rules against which to calibrate 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 to manage risk in a proactive way. It is paramount to know which risks NN Leven takes and why, to be aware of large existing and emerging risks and to ensure an adequate return for the risk assumed in the business.

NN Leven's risk control cycle consists of four steps, supported by a sound risk culture. The cycle starts with (1) setting business and risk objectives, resulting in a risk strategy (risk appetite, policies and standards). The next steps of the cycle are (2) to identify and assess the risks that need to be managed, followed by (3) effective mitigation through controls and (4) continuous monitoring effectiveness of controls, including reporting of risk levels. This cycle is supported by a sound risk culture.

The risk control cycle ensures that NN Leven operates within the risk appetite. The risk control cycle supports, NN Leven's strategy, the Business Plan (financial control cycle) and the performance management (HR cycle) which enables NN Leven to meet its business objectives.

Figure 1: the risk control cycle

Step 1 of the risk control cycle: Risk Strategy

NN Leven's risk appetite is the key link between NN Leven's strategy, capital plan and regular risk management as part of business plan execution. NN Leven's risk appetite, and the related risk limits and tolerances, is established in conjunction with the business strategy.

The Risk Appetite Statements define how NN Leven weighs strategic decisions and communicates its strategy to key stakeholders with respect to accepting risk. The statements describe how NN Leven wants to avoid unwanted or excessive risk taking and aim to optimise use of capital. Risk limits and tolerances are the qualitative and quantitative boundaries for risk taking and are derived in a consistent way from the risk appetite statements.

NN Leven expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into ten sub-statements, relevant risk limits and tolerances, control objectives and reporting. These three statements are intended to also be aligned with the NN Group's five strategic commitments focused on creating long-term value for all stakeholders:

Risk Appetite Statement	Description
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 and do not want to be a forced seller of assets when markets are distressed.
Sound Business Performance (Running the business - operationally)	We conduct our business with the NN Group 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.

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Risk Taxonomy

NN Leven has defined and categorised its generic risk landscape with the risk taxonomy as outlined below:

Risk Appetite Statement	Risk Class	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Newly developing risks, or changing risks, that cannot yet be fully assessed or quantified but that could, in the future, affect the viability of NN Leven's strategy.
	Strategic Risks	Risks arising from making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment
Strong Balance Sheet (Running the business - financially)	Market Risks	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk
	Counterparty Default Risks	Risks related to counterparties failing to meet contractual debt obligations
	Non-Market Risks	Financial risks related to the products NN Leven markets
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events.

Risk Limits and Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits, as prescribed in specific policies for relevant risk categories. A risk limit is the maximum exposure of a risk, management is willing to accept, and should not be breached. A risk tolerance is the level of exposure of a risk, where management wants to be actively informed – it is set to function as a trigger for reviewing the exposure regularly and might lead to taking action.

Risk Appetite Statement	Primary Impact Area	Key Risk Limits and Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan, such as progress on main strategic initiatives.
Strong Balance Sheet (Running the business - financially)	Financial	Solvency II ratio: the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). NN Group aims to capitalise its operating units adequately at all times. To ensure adequate capitalisation, NN Leven manages its commercial capital levels (based on the Solvency II ratio) in accordance with the risk associated with the business activities. Solvency II ratio sensitivities: NN Leven monitors the changes for both EOF and SCR under various scenarios. Own Funds at Risk limit: NN Leven has implemented a limit to monitor the impact of moderate (1-in-20) stress events. Interest Rate Risk limits: NN Leven has implemented limits and tolerances for interest rate risk exposures. Concentration Risk limits: in order to prevent excessive concentration risk, NN Leven has a concentration risk limit framework. The framework sets a risk appetite and concentration limits on corporate and sovereign issuers, asset type and country of risk. Liquidity Risk: liquidity risks are monitored by assessing the ratio between liquid assets and liquidity requirements for severe stress scenarios and different time horizons. Longevity Risk tolerance: NN Leven has implemented a tolerance for longevity risk exposure.
Sound Business Performance (Running the business - operationally)	Reputation, Operations	Annual Loss Tolerance and materiality: Tolerances on potential yearly loss, reputation impact and financial reporting accuracy. Restricted List: to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations, NN Leven has a Restricted List in place. This list is leveraged for the risk analysis related to client acceptance for the provision of financial products and services throughout NN Leven.

Step 2 of the risk control cycle: Risk Assessment

Risk assessments are regularly performed throughout NN Leven. For market, counterparty default and non-market risks, NN Leven's internal and associated models are leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require professional judgement in identification and quantification: qualitative risk assessments (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess identified risks and set up adequate controls.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Strategic Risk Assessment, Scenario analysis and contingency planning
	Strategic Risks	Scenario analysis and business planning
Strong Balance Sheet (Running the business - financially)	Market Risks	Quantified via NN Leven's Partial Internal Model; Assessed in New Asset Class Assessment (NACA), ALM studies and Strategic Asset Allocation (SAA) Mitigated by limit structure and use of derivatives
	Counterparty Default Risks	NN Leven's Partial Internal Model; Limit structure
	Non-Market Risks	NN Leven's Partial Internal Model; Product Approval and Review Process (PARP), Limit structure, reinsurance
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Detailed risk assessments on (sub-) processes (including IT aspects, fraud, etc.); Business and key controls, control testing, incident management and external insurance

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In the remainder of the paragraph some of the assessments as in the table above are described in more detail. Main mitigation techniques, such as the limit structure for financial risks, are discussed in more detail in the *Risk profile* paragraph, where all the main risk types will be described and how they are measured and managed.

Own Risk and Solvency Assessment (ORSA)

As part of the regular Own Risk and Solvency Assessment (ORSA), a strategic risk assessment is performed at least annually. Detailed risk assessments, performed bottom up by responsible managers throughout the organisation, serve as input. Outcomes of the strategic risk assessment are key risks, that are potentially solvency threatening, or that may have a significant negative impact on the achievement of one or more of the business objectives from NN Leven's strategy or business plan. NN Leven, prepares an ORSA at least once a year. Detailed risk assessments, performed bottom up by responsible managers throughout the organisation, serve as a main input. In the ORSA, NN Leven articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether its risks and capital are appropriately modelled, and evaluates how susceptible the capital position is to shocks through stress and scenario testing, including a multi-year view. Stress testing examines the effect of severe but plausible scenarios on the capital position of NN Leven. Stress testing can also be initiated outside the 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 considering the risks it holds. As part of the ORSA, the emerging risks are covered, that in the longer run might impact our balance sheet, including sustainability risks. For more information we refer to paragraph Risk Profile/Strategic and Emerging Risks. As part of the ORSA, NN Leven also assesses the ongoing appropriateness of its internal model which is used to calculate the Solvency II ratio.

Product approval and review process (PARP)

The PARP has been developed to enable effective design, underwriting and pricing of all insurance products, as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements 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 asset class assessment (NACA) and investment mandate process

NN Leven maintains a NACA for approving investments in new asset classes. At the group level, NN Group establishes a global list of asset classes in which NN Leven may invest, and NN Leven maintains a local asset list that is a subset of the global asset list prescribing in which asset classes NN Leven may invest. The investments in these asset classes are governed through investment mandates given to the asset manager(s).

Responsible Investment Framework policy and Restricted List

NN Leven has a policy framework in place to ensure that its assets are invested responsibly. Amongst others, the policy includes requirements to systematically incorporate environmental, social and governance (ESG) factors into the investment process. Furthermore, the implementation of a Restricted List should prevent investments in securities that are not in line with NN Leven's values, and/or applicable laws and regulations.

Step 3 of the risk control cycle: Risk Control

Risk Control refers to activities undertaken to ensure proper mitigating measures are designed, documented and executed such that risks are managed within defined risk limits and tolerances.

Activities that a priori are beyond the formulated risk appetite shall not be started. Inherent risks that are assessed as beyond the risk appetite shall be controlled to the extent it meets the relevant risk appetite statement(s). Risk controls can be classified along several dimension, e.g. nature (preventive, detective), object (entity wide, IT, process, security, fraud, ...), execution (automated, manual), level (BU MB, team levels) or scope (managerial, transactional).

In the Risk Profile section we describe per risk type the mitigating activities.

Step 4 of the risk control cycle: Risk Monitoring (& Reporting)

Risk monitoring helps to assess and evaluate developments in the risk profile. It determines whether risks are within the risk appetite, related limits and tolerances and in line with policies and standards. Results of the Risk monitoring are reported regularly to responsible managers of departments, as well as Management Board and Supervisory Board of NN Leven. This includes information on control effectiveness, control deficiencies and incidents, financial risk limits and developments, as well as second line opinion and advice. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

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Risk Appetite Statement	Risk Reporting and Monitoring
Strategic Challenges (Shaping the business)	We actively monitor and manage our products, distribution channels and organisation, as well as key performance and risk drivers of our business. We monitor alignment of investments with the Restricted List. This function is performed by Corporate Citizenship.
Strong Balance Sheet (Running the business - financially)	We monitor financial risks on our balance sheet via our Solvency II capital position and related limits and tolerances. We monitor our capacity to meet our payment and collateral obligations, even under severe liquidity stress scenarios.
Sound Business Performance (Running the business - operationally)	We monitor alignment with applicable laws and regulations, NN Group policies and standards. We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN Group values. We accept but limit losses from non-financial risk and therefore manage to agreed tolerances by regularly evaluating controls, deficiencies and incidents.

Risk Reporting

On a quarterly basis, the Management Board is presented with an Own Funds report, a Solvency Capital Requirement report and an Effective Control Framework (ECF) report. These reports are also presented to the Supervisory Board of NN Leven.

The Own Funds and Solvency Capital Requirement Report aims to provide an overview of the quarterly Solvency II capital position and development, including the Solvency II ratio sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR at NN Leven level. Solvency II ratio sensitivities are disclosed at NN Group level.

The ECF report is to provide one consistent, holistic overview of the risks of NN Leven. It focuses on comparing current risk levels to NN Leven's risk appetite, with conclusions drawn by the CEO, and aims to encourage forward-looking risk management.

Preparatory Crisis Plan

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.

Following the entering into force of the Dutch law on Recovery and Resolution (as of now R&R Law) (in Dutch: "Wet Herstel en Afwikkeling Verzekeraars"), NN Leven has updated its recovery measures as part of the Preparatory Crisis Plan to ensure there are effective strategies in place to deal with severe financial distress.

The aim of this Preparatory Crisis Plan is to ensure that tools, measures and processes are in place that enable NN Group to:
- Avoid going into Recovery
- Timely anticipate an approaching financial distress and/or potential recovery situation
- Quickly recover to an acceptable minimum solvency (and liquidity) level when faced with financial distress and/or Recovery

The Management Board of NN Group is responsible for the Preparatory Crisis Plan and the plan is regularly reassessed and updated by Finance, which is filed with DNB. NN Leven updates its specific NN Leven recovery measures which are included in the Preparatory Crisis Plan.

Risk Control Cycle: Risk Culture

Management plays a vital role in creating a sound risk culture as they are role models and the main messengers of sound risk management. This includes to:

- show a solid risk management focus in decision making, with a view to long term stability of the business, including understanding and use of risk models when relevant,
- foster diversity of thoughts and solicits different views in decision making,
- foster a culture of transparency in which early identification of risk issues and material incidents are communicated timely to relevant parties,
- ensure operational management take their proper responsibilities in the risk control cycle,
- address dysfunctional behaviour of staff,
- ensure adequate staffing and ensure employees are well trained for their roles, and
- actively manage risks throughout the lifetime of products and not just at the moment of sale.

Within the risk management cycle, NN Leven performs regular assessments with regard to risk culture and maturity, to assess and learn whether this supports the effective functioning of the risk control cycle. The Maturity and Risk Culture assessment provides the NN Leven CEO with a periodical confirmation that the framework is still materially complete and operated by first and second line as intended, ensuring he will be timely informed on things he needs to know from risk perspective, either by lower first line levels or by the second line, and if not, what the ambition is. In addition it creates awareness on what a good (risk) culture entails and fosters internal discussions on the same.

V. Risk profile

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VI. Strategic and emerging risks
Strategic risks identified by management of NN Leven in their annual assessment:

- Business Model Risk: Risk of NN Leven's business model not being able to timely adapt to changing market circumstances (resulting in lower revenues vs. our cost base). This includes risks related to the strategy, M&A, product portfolio, legal structure and operating model)
- HR Risk: Risk of not being able to attract, retain and pay competent employees, including world class talents, to shape and build NN Leven's business
- Disruptive Technology Risk: Risk of technological developments having a profound impact on the businesses of NN Leven
- Political & Regulatory Risk: Risk of political and regulatory developments having a profound impact on the businesses of NN Leven
- Societal Risk: Risk of evolving norms and values in society, including its view on dealing with the environment, having a profound impact on the business of NN Leven

Strategic risks
Risk profile
Economic, technological, ecological and demographic developments are impacting the strategic context in which we operate. To remain relevant to our customers in the long run, we need to timely anticipate these developments. Strategic risks are risks arising from making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment.

NN Leven manages its portfolio of businesses on a risk-return basis to meet strategic objectives whilst considering the interests of all stakeholders.

In the annual Strategic Risk assessment (for more detail see section: *Steps 2 & 3 of the risk control cycle: Risk Assessment & Control*) the Management Board of NN Leven identified the following strategic risks: business model sustainability, managing ongoing expenses, regulatory changes and its impact on business decisions, key staff and talent management and insufficient change ability in our workforce.

Risk mitigation
Strategic risks are mainly managed by undertaking strategic projects to adjust our organisation, products or businesses to address new regulatory, technological or demographic developments. We realise organic growth in the markets we are active by developing new ecosystems or products. We also undertake scenario analysis to analyse potential future events that can impact our strategy and/or capital position, a.o. in the ORSA.

Risk measurement
Strategic risks are not fully quantified, instead several metrics are reported, such as (externally) progress versus our strategic commitments and (internally) progress on strategic initiatives

Emerging risks
Risk profile
Emerging risks are newly developing risks, or changing risks, that cannot yet be fully assessed or quantified but that could, in the future, affect the viability of NN Leven's strategy. Most of these risks have a high degree of uncertainty with regard to how they can impact us, or the size of the impact.

An important topic that receives significant attention are risks related to ESG matters, including climate change. For NN Leven's businesses, transition risk is most important. Transition risk, meaning risks related to transition to lower carbon economies which may adversely affect individual businesses, sectors and the broader economy, thereby also having an impact on our investment portfolio and related results. Pricing and investment returns of financial assets may be influenced by such factors as public policy (carbon tax, subsidies etc.), technological developments (resulting in invested companies that will be able to profit, or that will be negatively impacted by the transition) and changing consumer preferences (e.g. customers favouring greener products).

Risk mitigation
NN Leven manages emerging risks by performing regular risk assessments, that help to further understand how emerging risks evolve, and how a combination of events can impact us. An important tool is scenario analysis to further understand how our risk profile would be impacted under certain circumstances, but also creating backup and contingency plans in case events would realise. Our main mitigant is adjusting our strategy to proactively react to these risks.

Around climate change the main mitigating activities are:
- Dealing with climate change is an integral part of our strategy. We have set specific non-financial targets, as part of our strategic commitment *Society*, a.o. to integrate ESG aspects in our investments and our net-zero commitments.
- NN Leven manages the transition risk by further integrating ESG aspects in its investment strategy, as laid down in the Responsible Investment Framework, where NN Leven is phasing out its investments in certain industries, as well as shifting to others. Furthermore NN Leven uses concentration limits to avoid concentration risk in certain counterparties/industries, as well as applies stress testing to further understand the sensitivities of the investments.

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- Deploying qualitative and quantitative scenario based analysis, a.o. as part of our ORSA, helps us to better understand the impact of both physical and transitional risks on our investments and products, for different time horizons. We use the insights gained as further input for formulating our investment strategy and integrating climate change aspects in our risk management practices.
- In 2022, an amendment to the Solvency II directive aims to integrate ESG risks into the risk management framework, amongst others considering ESG risks in actuarial and risk management and performing a mandatory risk assessment that assesses material risks to which NN Leven is exposed (as part of ORSA).

Risk measurement
Emerging risks cannot be fully assessed or quantified yet. We are further developing data and methodologies to measure impact.

VII. Financial risks

Partial Internal Model (PIM)
The Solvency Capital Requirement (SCR) is calculated based on actual risks NN Leven is exposed to. Under Solvency II, the SCR is defined as the loss in basic own funds of the Solvency II balance sheet resulting from a 1-in-200-year adverse event over a one-year horizon. The risk-based framework for calculating solvency capital requirements at NN Leven is a Partial Internal Model. Most components use internally developed methodologies for modelling the market, counterparty default, business and insurance risks to determine the solvency position for reporting and Group consolidation purposes. The capital requirement for operational risk is based on the Standard Formula approach.

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 better reflects the specific assets and market risk in the portfolio of NN Leven.
- The approach used for most significant non-market risks within NN Leven such as life risk and expense risk can be better tailored to the specific portfolio characteristics. Diversifications effects that are intuitive to the business model can be captured in a more adequate way.
- The granularity of the PIM and close alignment of the modelling techniques and parameters to NN's risk management approach also mean that it can support a wide range of business decisions.

Assumptions and limitations
Risk-free rate and volatility adjustment
The assumptions regarding the underlying risk-free curve are crucial in discounting future cash flows when calculating the market values of assets and liabilities. For liabilities, NN Leven uses the methodology prescribed by EIOPA for the risk-free rate including the credit risk adjustment (CRA) and the ultimate forward rate (UFR). Where appropriate, the risk-free rate is adjusted with the volatility adjustment for the calculation of Own Funds.

Valuation assumptions – replicating portfolios
NN Leven uses replicating portfolio techniques to represent the insurance product-related cash flows, options and guarantees by means of standard financial instruments in the risk calculations. This approach is also used for the mortgages portfolio of NN Leven. The replications are used to determine and revalue insurance liabilities and mortgages under a large number of Monte Carlo scenarios.

Diversification and correlation assumptions
For a financial services provider offering a variety of products across different business segments, and investing in a wide range of assets, diversification is key to the business model. The resulting diversification reflects the fact that not all worst-case losses are likely to materialise at the same time. The Internal Model takes diversification effects into account when aggregating results between different risk types.

Where possible, correlation parameters are derived through statistical analysis based on historical data. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by expert judgement via an established, well-defined and controlled process. Similar to other risk models, correlations and expert judgements are also monitored for appropriateness given availability of more historical data (e.g. inclusion of COVID 19 related market stress), and are subject to regular development, validation and regulatory oversight. Based on these correlations, industry-standard aggregation approaches such as Gaussian copula and VaR–CoVaR approach are used to determine the dependency structure of quantifiable risks.

Model limitations
NN Leven's Partial Internal Model (PIM) resulted from balancing between (1) an appropriate and clear methodology and (2) efficient calculations with appropriate accuracy and granularity in the underlying risks. Despite several limitations stemming from this, the overall PIM is considered to be materially robust, appropriate and compliant with Solvency II.

As a result of the granular modelling approach and the wide variety of NN Leven's assets and liabilities, the PIM is more complex than the Standard Formula.

Inherent model limitations related to the calibration of a 1-in-200 year stress event for a full spectrum of market and non-market risks include the use of limited historical data to determine a distribution of forward-looking risk factor stresses as well as the use of modelling assumptions and expert judgements.

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Risks that cannot be directly modelled in the same way as Market Risk or Insurance Risk, for example strategic, reputational and model risks, and also emerging risks are managed through qualitative risk assessments. In addition, and as part of the ORSA, NN Leven holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

The components of NN Leven's Partial Internal Model for market and counterparty default risk and the models risk aggregation and replication have been developed centrally by Group Risk, with the inherent risk that the developed models have aspects which might be less appropriate for individual entities. On a regular basis NN Leven performs Fit For Local Use assessments, and model reviews are performed by an independent model validation department. Such reviews could result in additional monitoring and locally calculated and further centrally processed adjustments.

The Risk Management Function informs the Management and Supervisory Board on an annual basis on the performance of the internal model.

EIOPA Solvency II 2020 review

EIOPA's Opinion on the Solvency II review to the European Commission (EC) was published on 17 December 2020. The Opinion consists of a proposed package of measures and will be used as input for the European Commission to draft a legislative proposal which will be discussed with the European Council and European Parliament in the coming years.

On 22 September 2021 the European Commission published as part of the Solvency II 2020 Review the proposed Level I texts (Directive) and insights in the upcoming Level II (Delegated Acts) regulations. Since this proposal mainly contains details on the Solvency II Directive, full detailed specifications of Delegated Acts are not yet clear. Furthermore, this EC proposal forms the basis for the upcoming political process, which can take several quarters and can lead to further changes in the proposals. The EC advice is on many items broadly in line with the earlier EIOPA proposal published in December 2020. However, some noteworthy changes in the EC advice can be summarised as follows:

- *Interest rate curve:* The implementation of the alternative extrapolation methodology used for the valuation of (long) insurance cash-flows will lead to a higher valuation of liabilities. The phasing-in of this negative impact will follow a simpler phasing-in mechanism and the initial impact on the Solvency II ratio is expected to be smaller compared to the original EIOPA proposals.
- *Risk margin:* EC proposes to lower the cost-of-capital rate from 6% to 5%. Furthermore, it is proposed to remove the floor in the so called "lambda approach" that was part of the EIOPA advice. These changes will lower the valuation of the risk margin. The exact details will be part of the Level II regulations, but the EC already included in its communication that these changes are considered.
- *Volatility Adjustment and Enhanced Prudency Principle:* The entity specific liquidity haircut for volatility adjustment is not included in the proposals of the EC. This will increase the effectiveness of the Volatility Adjustment compared to the EIOPA advice and it impacts the Enhanced Prudency Principle.

The resulting updated legislation is currently expected to be implemented at the earliest in 2024.

Solvency capital requirement profile

Solvency II ratio of NN Leven

The following table shows the NN Leven Solvency II ratio as at 31 December 2021 and 31 December 2020 respectively.

	2021	2020
Eligible Own Funds (EOF)	13,528	13,394
Solvency Capital Requirement (SCR)	6,187	6,095
Solvency II ratio (EOF/SCR)	**219%**	**220%**

The Solvency Capital Requirement is based on the Partial Internal Model.

Solvency Capital Requirement

The following table shows the NN Leven Solvency Capital Requirement (SCR) as at 31 December 2021 and 31 December 2020 respectively.

Solvency II Capital Requirements

	2021	2020
Market risk	5,721	4,157
Counterparty default risk	39	125
Non-market risk	4,503	5,492
Total BSCR (before diversification)	**10,264**	**9,774**
Diversification	-2,722	-2,291
Total BSCR (after diversification)	**7,542**	**7,483**
Operational risk	490	526
Other	-27	-26
LACDT	-1,818	-1,888
Solvency II SCR	**6,187**	**6,095**

The breakdown of specific SCR risk types and explanations for the most important changes in the risk profile over the year of 2021 are presented in the next sections. The overall Market risk SCR increased from EUR 4,157 in 2020 to EUR 5,721 million in 2021 which can be largely attributed to a significantly lower Interest rate risk SCR, leading to a change in diversification benefits. The Non-market risk SCR decreased from EUR 5,492 million in 2020 to EUR 4,503 million in 2021, mainly driven by a refinement of the Longevity risk models, by a transfer of longevity risk of approximately EUR 4 billion of liabilities via a reinsurance contract and due to higher interest rates..

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The loss-absorbing capacity of deferred taxes (LACDT) benefit decreased mainly due to a change in diversification benefit, partly offset by an increase in corporate tax rate. In the above table, 'Other' includes loss-absorbing capacity of technical provisions (LACTP).

Main types of risks

In the next sections the main risks associated with NN Leven's business are discussed. Each risk type is analysed through the risk profile, risk mitigation and risk measurement. For Market and Non-market risks more detailed quantification of risk exposures is provided.

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 returns benefiting the 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. NN Leven reduces downside risk through various hedging programmes, in particular risks for which NN Leven has no or only a limited appetite like interest rate, inflation and foreign exchange risk. In addition, NN Leven performs ad hoc analyses in response to changing market circumstances. NN Leven also integrates Environmental, Social, and Governance (ESG) factors in the investment decision-making framework.

Market risk capital requirements

	2021	2020
Interest rate risk	1,369	4,508
Equity risk	2,855	2,976
Credit spread risk	3,943	3,541
Real estate risk	1,681	1,467
Foreign exchange risk	452	370
Inflation risk	192	323
Basis risk	57	81
Concentration risk	0	0
Diversification market risk	-4,827	-9,109
Market risk	**5,721**	**4,157**

In 2021, the Market Risk SCR increased to EUR 5,721 million, driven by higher exposure to mortgages and real estate and significantly lower diversification of the market risks. Interest rate SCR decreased due to higher rates and the refinement of Interest rate risk SCR calculation. Credit spread risk SCR increase was driven by the increase of the duration of government bonds, the shift to higher-yielding assets and additional investments in mortgages. Real estate SCR increase was mainly driven by additional investments and market revaluations. Diversification decreased as a result of decreased interest rate risk and increased real estate and spread risks..

The table below sets out NN Leven's market value of assets for each asset class as at the end of 2021 and 2020. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and furthermore due to classification and valuation differences to reflect a risk management view.

Investment assets

	Market value 2021	% of total 2021	Market value 2020	% of total 2020
Fixed income	**98,319**	**82%**	**99,141**	**85%**
Government bonds and loans	40,718	34%	45,660	39%
Financial bonds and loans	6,254	5%	6,350	5%
Corporate bonds and loans	17,158	14%	16,759	14%
Asset-backed securities	1,677	1%	2,061	2%
Mortgages[1]	32,311	27%	28,118	24%
Other retail loans	201	0%	193	0%
Non-fixed income	**18,706**	**16%**	**17,697**	**15.1%**
Common & preferred stock[2]	5,347	4%	5,679	5%
Private equity	1102	1%	731	1%
Real estate[3]	10,303	9%	9,297	8%
Mutual funds (money market funds excluded)[4]	1,954	2%	1,990	2%
Money market instruments (money market funds included)[5]	**3,430**	**3%**	**132**	**0.1%**
Total investments	**120,456**	**100%**	**116,970**	**100.0%**

1 Mortgages are on amortised cost value. The mortgage value on the consolidated IFRS balance sheet differs from the value in the current table due to the acquisition premium of mortgages and the inclusion of mortgages underlying the mortgage structure vehicles.
2 All preference shares are included in 'common & preferred stock', even when preference shares are modelled as bonds.
3 The real estate values exclude the real estate forward commitments, since NN Leven has no price risk related to them.
4 Fixed income mutual funds are included in mutual funds.
5 Money market mutual funds and commercial papers and other short-term securities bought for cash management purposes are included in the Money Market Instrument. In 2020 money market funds and commercial papers and other short-term securities bought for cash management purposes were not included.

Total investment assets have increased from EUR 116,970 million at the end of 2020 to EUR 120,456 million at the end of 2021. Main risk profile related developments in 2021 are reflecting the strategy of NN Leven to increase operating capital generation by shifting to higher-yielding

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assets: a gradual reduction in the exposure to low yielding core government bonds and an increase in allocation to mortgages, loans, real estate and private equity.

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 and liabilities cash flows. Exposure to interest rate risk arises from asset or liability positions that are sensitive to changes in this risk-free interest rate curve. As of the second half of 2021, NN Leven's Partial Internal Model SCR also includes the change in value of the risk margin due to interest rate shocks.

Risk profile

As shown in the 'Market risk capital requirements' table above, the Interest rate risk SCR of NN Leven decreased from EUR 4,508 million in 2020 to EUR 1,369 million in 2021. The decrease is mainly driven by the refinement of Interest rate risk SCR calculation. Moreover, it is reflecting market and portfolio movements during the year such as an increase of the risk-free interest curve. Volatility Adjustment (VOLA) decreased by 4bps and reached the level of 3 bps at the end of 2021. The decrease of Interest rate risk SCR also contributes to the decrease of the diversification across market risks.

Risk mitigation

The interest rate SCR indicates to what extent assets and liabilities are matched on Solvency II basis. NN Leven manages its interest rate position by investing in long-term bonds and interest rate swaps. The interest rate risk management focuses on matching asset and best estimate liability cash flows for the durations for which the markets for fixed income instruments are sufficiently deep and liquid.

NN Leven liability cash flows are predictable and stable, since exposure to policyholder behaviour and profit-sharing mechanisms is very limited. Until year 30, where markets for fixed income instruments are sufficiently deep and liquid, best estimate liability cash flows (excluding risk margin) are closely matched with government bonds, corporate bonds, mortgages and loans. Cash flows after 30 years are partially hedged on a duration basis with long term government bonds and interest rate swaps, due to price and illiquidity of markets.

NN Leven has implemented limits and tolerances for interest rate risk exposures.

Interest rates increased significantly in 2021 in the Euro-zone, as an example the 20-year swap rate increased by 55 bps. We continuously monitor and consider mitigating solutions for our new business, such as an accelerated shift to defined contribution pension products and a shift towards protection products in the market in general.

Risk measurement

For the purpose of discounting EUR-denominated asset cash flows, NN Leven uses market swap curves to value assets. For the asset cash flows denominated in other currencies, the relevant swap or government curve is used for that specific currency.

For the purpose of discounting the EUR-denominated liability cash flows NN Leven uses a swap curve less credit risk adjustment (CRA) plus Volatility Adjustment (VOLA) in line with definitions under the Solvency II. For the liability cash flows denominated in other currencies, the relevant swap or government curve is used where this curve is also lowered by the credit risk adjustment and adding the Volatility Adjustment specific for each currency. In line with Solvency II regulations, NN Leven extrapolates the EUR swap curve starting from the last liquid point onwards to the Ultimate Forward Rate for each relevant currency in its portfolio. The last liquid point (LLP) used for EUR is 20 years. As such, 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.

For 2021, the UFR for EUR under Solvency II is set at 3.60% in line with the EIOPA methodology.

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

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 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.

Risk profile

The table below sets out the market value of NN Leven's equity assets as at the 31 December 2021 and 2020, respectively.

Equity assets

	2021	2020
Common & preferred stock	5,347	5,679
Private equity	1,102	731
Mutual funds (money market funds are excluded. Fixed income mutual funds are included)	1,954	1,990
Total	**8,403**	**8,400**

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NN Leven is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. The equity exposure is diversified across the Netherlands (approximately 39.7%) and other European countries (approximately 60.3%). Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds.

As shown in the 'Market risk capital requirements' table above, the Equity risk SCR of NN Leven decreased from EUR 2,976 million in 2020 to EUR 2,855 million in 2021. This reflects a lower equity exposure mostly due to divestments in 2021 Q4, partly offset by positive equity performance.

Risk mitigation

Exposure to equities provides additional diversification and upside return potential in the asset portfolio of an insurance company with long-term illiquid liabilities. The concentration risk on individual issuers is mitigated by having issuer risk limits in place in investment mandates. NN Leven hedges the interest and equity sensitivities of the unit-linked guarantees. Equity risk in the unit-linked portfolio is hedged using a dynamic hedge which is updated at least quarterly. NN Leven uses short futures as well as long calls to hedge the equity risk.

Risk measurement

The sensitivity of the Solvency II ratio to changes in the value of equity is monitored on a quarterly basis.

Credit spread risk

The credit spread risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse movements in the credit spreads of fixed income assets. The credit spread widening (or narrowing) reflects market supply and demand, rating migration of the issuer and changes in expected default. Changes in liquidity and other risk premiums that are relevant to specific assets can play a role in the value changes.

In the calculation of the SCR, NN Leven assumes no change to the volatility adjustment 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 approach ensures appropriate risk incentives and is approved by DNB. NN Leven also shocks all government bonds and its mortgage portfolio in the calculation of spread risk capital requirements.

The main asset classes in scope of the credit spread risk module are government and corporate bonds, mortgages and loans.

Risk profile

As shown in the 'Market risk capital requirements' table, the Credit spread risk SCR of NN Leven increased from EUR 3,541 million in 2020 to EUR 3,943 million in 2021. This increase is mainly driven by new investments in government bonds with very long duration and a shift to higher-yielding assets.

The table below shows the market value of NN Leven's fixed-income bonds which are subject to Credit spread risk SCR by type of issuer as at the 31 December 2021 and 31 December 2020, respectively.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2021	**2020**	**2021**	**2020**
Government Bonds & Loans	40,718	45,660	62%	64%
Finance and Insurance	6,254	6,350	10%	9%
Asset Backed Securities	1,677	2,061	3%	3%
Manufacturing	5,123	5,267	8%	7%
Utilities	1,907	2,300	3%	3%
Real Estate and Rental and Leasing	1,456	1,398	2%	2%
Information	1,482	1,397	2%	2%
Transportation and Warehousing	1,203	1,122	2%	2%
Other	5,987	5,275	9%	8%
Total	**65,807**	**70,830**	**100%**	**100%**

Despite investments in government bonds with a very long duration, the total exposure to government bonds decreased. The decrease in exposure to government bonds in 2021 reflects the strategy of NN Leven to shift to higher-yielding assets.

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

Market value government bond and loans exposures (2021)

			Market value of government bond and loans 2021 by number of years to maturity[4]								
	Rating[1]	Domestic exposure[2]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total
France	AA	0%	1	36	0	0	7	3,284	522	5,037	8,887
Germany	AAA	0%	0	47	445	5	1,838	2,902	669	387	6,293
Netherlands	AAA	0%	11	534	0	201	327	2,251	2,024	12	5,360
Austria	AA+	0%	147	0	172	316	662	1,069	753	1,829	4,948
Belgium	AA-	0%	298	177	0	41	377	2,194	529	910	4,526
United States	AAA	0%	1	0	0	1	0	282	2,085	0	2,369
Spain	A-	0%	0	0	41	54	41	1,365	503	0	2,004
Multilateral[3]	AAA	0%	94	14	79	86	16	509	524	14	1,336
Finland	AA+	0%	0	0	0	161	0	0	958	1	1,120
Italy	BBB-	0%	0	0	0	0	598	0	0	0	598
Other			357	106	159	513	1,204	564	357	17	3,277
Total			**909**	**914**	**896**	**1,378**	**5,070**	**14,420**	**8,924**	**8,207**	**40,718**

1 NN Leven uses the second-best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.

Market value government bond and loans exposures (2020)

			Market value of government bond and loans 2020 by number of years to maturity[4]								
	Rating[1]	Domestic exposure[2]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total
France	AA	0%	0	1	35	35	8	2,393	2,176	5,760	10,408
Germany	AAA	0%	5	0	50	703	1,524	3,815	721	98	6,916
Netherlands	AAA	100%	205	38	662	224	826	2,428	2,372	15	6,770
Austria	AA+	0%	155	153	0	183	1,132	1,185	839	1,592	5,239
Belgium	AA-	0%	0	312	179	33	577	1,658	1,736	0	4,495
United States	AAA	0%	1	1	0	1	0	176	2,184	0	2,363
Spain	A-	0%	0	0	0	96	43	1,051	983	0	2,173
Multilateral[3]	AAA	0%	0	95	14	113	280	906	579	16	2,003
Finland	AA+	0%	36	0	0	268	57	0	1,053	0	1,414
Italy	BBB-	0%	0	0	0	0	670	189	14	0	873
Other			83	340	101	339	1,380	590	173	0	3,006
Total			**485**	**940**	**1,041**	**1,995**	**6,497**	**14,391**	**12,830**	**7,481**	**45,660**

1 NN Leven uses the second-best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.

Of the total NN Leven sovereign debt exposure 76% (or EUR 31.1 billion) is invested in AAA and AA rated eurozone countries. These long-term government bonds and loans are sensitive to sovereign credit spread movements versus EUR swap rates. In line with the strategy of NN Leven there is a gradual reduction in the exposure to government bonds and an increase in allocation to mortgages, loans and real estate.

The tables below shows the market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating and maturity.

Market value non-government bond securities and loans (2021)

	Market value of non-government bond securities and loans by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total
AAA	59	84	73	57	153	819	384	1,014	2,643
AA	293	173	71	192	267	351	194	156	1,697
A	870	958	696	1,456	1,204	609	566	552	6,911
BBB	791	1,141	1,515	1,738	1,745	1,471	840	115	9,356
BB	221	181	228	699	1,189	51	15	14	2,598
B	71	210	200	528	375	5	0	0	1,389
CCC	35	23	12	70	101	0	0	0	241
CC	0	0	0	0	0	0	0	0	0
C	0	0	0	0	0	0	0	0	0
D	14	0	0	1	7	13	0	0	35
No rating available	37	3	7	0	144	0	0	29	220
Total	**2,391**	**2,773**	**2,802**	**4,741**	**5,185**	**3,319**	**1,999**	**1,880**	**25,090**

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Market value non-government bond securities and loans (2020)

	Market value of non-government bond securities and loans 2020 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total
AAA	161	73	101	80	401	984	404	1,410	3,614
AA	452	305	185	222	455	305	120	52	2,096
A	423	844	1,020	1,583	1,322	273	185	510	6,160
BBB	797	997	1,369	2,753	2,157	1,066	435	55	9,629
BB	186	119	391	699	1,133	29	16	14	2,587
B	17	126	182	296	301	0	0	0	922
CCC	22	6	12	9	10	0	0	0	59
CC	0	9	0	1	0	0	0	0	10
C	0	0	0	0	0	0	0	0	0
D	20	0	0	0	0	14	0	7	41
No rating available	12	3	4	0	1	0	0	32	52
Total	**2,090**	**2,482**	**3,264**	**5,643**	**5,780**	**2,671**	**1,160**	**2,080**	**25,170**

The table below sets out NN Leven's holdings of loans and other debt securities as at the 31 December 2021 and 2020, respectively.

Market value bonds, loans and other debt securities (per credit rating)

	Fair value 2021	Fair value 2020	Book value 2021	Book value 2020
AAA	17,322	21,196	13,979	20,940
AA	22,419	24,527	17,985	24,489
A	9,999	9,450	9,258	9,387
BBB	11,006	11,619	10,469	11,547
BB	3,143	2,922	3,106	2,911
B	1,423	952	1,435	959
CCC	241	59	246	67
CC	0	11	0	11
C	0	0	0	0
D	35	41	79	81
No rating available	220	42	137	-22
Mortgages[1]	32,311	28,118	32,311	28,118
Other Retail Loans	201	193	201	193
Total	**98,320**	**99,130**	**89,206**	**98,681**

1 Mortgages refer to all mortgages using the same criteria and is aligned with the mortgages figure in the Investment assets table.

Mortgages

The required capital for mortgages under the Partial Internal Model is calculated in the credit spread risk module. The credit spread risk module captures the behaviour of Own Funds when the valuation of mortgages 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) of NN Leven stands at 59% at the end of December 2021 (2020: 67.5%). Sharply increasing house prices in 2021 (+17.5%) resulted in a migration towards lower LTV buckets. The inherent credit risk of mortgages is backed primarily by means of the underlying property, but also through guarantees by the Nationale Hypotheek Garantie (NHG) and other secondary covers like saving accounts, investments and life insurance policies. Mortgages with NHG accounted for 26% at NN Leven at the end of 2021. The relative NHG coverage is decreasing in the portfolios mostly due to the high house prices, so overall less mortgages are eligible for NHG coverage. 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.

Loan-to-Value on mortgage loans[1]

	2021	2020
NHG	26%	29%
LTV <=80%	66%	55%
LTV 80%-90%	5%	11%
LTV 90% - 100%	2%	5%
LTV >100%	1%	1%
Total NN Leven	**100%**	**100%**

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

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 loan is 90 days past due, or the client was in default in the previous month, and the minimum holding period (MHP) is active or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP-status is withdrawn).

The main criterion for lifting the default status will be that no arrears greater than EUR 250 occurred during the Minimum Holding Period (MHP). For defaulted clients that are classified as 'distressed restructuring', the MHP is 12 months. For all other defaulted clients, the MHP is 3 months.

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The impact of COVID-19 is limited. Combined with low levels of unemployment, the outstanding non-performing loans decreased in 2021. Provisions decreased due to sharply increasing house prices in 2021 (+17.5%) and a decrease in non-performing loans.

The net exposure decreased because of increasing house prices.

Credit quality: NN Leven mortgage portfolio, outstanding[1 2]

	2021	2020
Performing mortgage loans that are not past due	25,286	23,189
Performing mortgage loans that are past due	128	111
Non-performing mortgage loans[3]	77	113
Total[4]	**25,491**	**23,413**
Provisions for performing mortgage loans	2	3
Provisions for non-performing mortgage loans	5	11
Total[4]	**7**	**14**

1 Risk figures and parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Leven.
2 Amounts are excluding partial transfer of mortgages.
3 The non-performing loans include "unlikely to pay" mortgage loans, which may not be past due
4 The total value for Mortgages is different in this table vs. Investment Assets Table because of exclusion of mortgage structure vehicles.
5 Mortgage provisions have decreased as a result of the increase in the house prices in 2021-H1

Collateral on mortgage loans[1]

	2021	2020
Carrying value	25,491	23,413
Indexed collateral value of real estate	49,536	38,902
Savings held[2]	985	1,006
NHG guarantee value[3]	5,480	5,600
Total cover value[4] + including NHG guarantee capped at carrying value	25,474	23,391
Net exposure	**16**	**22**

1 The figures in the table contain mortgages originated by NN Bank. Mortgages sourced via third party manager are not included in the table
2 Savings held includes life policies
3 The NHG guarantee value follows an annuity scheme and is corrected for the 10% own risk (on the granted NHG claim)
4 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions

Risk mitigation
NN Leven has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to diversify the credit spread risk, NN Leven increased its investments in non-listed 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.

Risk measurement
NN Leven has exposure to government, corporate and financial debt, and is exposed to spread changes for these instruments. Furthermore, the Volatility Adjustment in the valuation of liabilities introduces an offset to the valuation changes on the asset side. The sensitivity of the Solvency II ratio to changes in the value of credit spread is monitored on a quarterly basis.

Government bond shocks are applied to the following asset classes: government bonds and loans, government-linked instruments (sub-sovereigns and supranational). Corporate spread shocks are applied to the following asset classes: corporate bonds (financials and non-financials), covered bonds, subordinated bonds, asset-backed securities and loans. Mortgages are subject to spread shocks in a separate scenario.

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 value of real estate. Exposure to real estate risk arises mainly from holding direct real estate properties or positions in real estate mutual funds. With the long-term nature of the liabilities of NN Leven, illiquid assets such as real estate play an important role in the asset allocation.

Risk profile
NN Leven's real estate exposure (excluding forward commitments) increased from EUR 9,297 million at the end of 2020 to EUR 10,303 million at the end of 2021.

NN Leven holds real estate directly (owning the object) or indirectly by having a stake in an investment fund dedicated to real estate. 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.

Notes to the Consolidated annual accounts continued

The table below sets out NN Leven's real estate exposure per region as at 31 December 2021 and 2020, respectively.

Real estate assets per region[1]

	2021	2020
Western Europe	62%	62%
Southern Europe	16%	18%
Nordics	7%	7%
Central and Eastern Europe	4%	5%
UK and Ireland	11%	8%
Other	0%	0%
Total	**100%**	**100%**

1 Excludes real estate forward commitments, since NN Leven has no price risk related to them.

As shown in the 'Market risk capital requirements' table, the Real estate risk SCR of NN Leven increased from EUR 1,467 million in 2020 to EUR 1,681 million in 2021. This increase is mainly due to new investments and increase in property investment valuations.

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual assets is mitigated under the relevant investment mandates. Real estate portfolio is also well diversified across European countries and sectors.

Risk measurement

NN Leven monitors the sensitivity of the Solvency II ratio to changes in the value of real estate on a quarterly basis. The increase in SCR capital for real estate is a result of several transactions and market revaluation.

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.

The SCR for foreign exchange risk increased from EUR 370 million in 2020, to EUR 452 million in 2021. This is due to change in exposures to currencies as USD and GBP as well as currency rate movements.

Risk mitigation

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.

Inflation risk

Inflation risk is defined as the risk of adverse changes in inflation that result into decrease in Solvency II Own Funds.

Risk profile

NN Leven has two types of inflation linked exposures. The first exposure relates to inflation linked group contracts where the payment (pensions) to the policyholder is linked to an external inflation index. Next to that, NN Leven expenses are sensitive to inflation risk as a result of, for example, increasing wages. This latter is discussed in more detail in the upcoming section on Business risk.

Risk mitigation

With respect to the inflation linked liabilities part of the underlying contracts feature a cap applied to the inflation that is being compensated to the policyholders, which limits the risk of high inflation rates to NN Leven. Furthermore, NN Leven hedges the inflation risk using inflation linked swaps. These instruments are used to offset the inflation risk included in the liabilities (i.e. the inflation linked group contracts). NN Leven has a specific hedging policy in place and tolerances defined. The position is monitored on a quarterly basis and adjusted if needed (e.g. in case of a tolerance breach). Furthermore, the NN Leven ALCO is updated on an periodically on the performance of the hedge and inflation developments in general.

Risk measurement

As per 2021 Q4 the required capital for the inflation risk related to the inflation linked contracts, offset by the inflation linked swaps, is EUR 192 million, while per year-end 2020 the capital was EUR 323 million. This decrease in capital is mainly the result of increasing inflation rates, which leads to a smaller mismatch between inflation linked swaps and inflation linked liabilities. The capital for inflation risk related to the expenses of NN Leven is discussed in more detail in the upcoming section on Business risk.

Basis risk

The SCR Basis risk is defined as a risk that the underlying asset or liability behaves differently than the underlying hedge instrument, which results in the loss in the Solvency II balance sheet.

Risk profile

The SCR for basis risk decreased from EUR 81 million in 2020, to EUR 57 million in 2021, mostly due to model changes.

Notes to the Consolidated annual accounts continued

Risk mitigation
The Basis risk is mitigated by fund mapping of the underlying funds to risk factors, and also by constant monitoring of the fund performance compared to the benchmark.

Market risks within separate account businesses
For the separate account businesses the policyholder bears the majority of the market and credit risk. NN Leven's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business, NN Leven retains risk associated with the guarantees provided to its policyholders. Businesses in this separate account category are (i) the group pension business for which guarantees are provided and (ii) other separate account business, primarily the unit-linked business and variable annuities (VA).

Separate account guaranteed group pension business in NN Leven
Risk profile
In the separate account guaranteed group pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their contract with NN Leven. Regardless of actual returns on these investments, pension benefits for the beneficiaries are guaranteed under the contract. The value of the provided guarantee is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

The Assets under Management for NN Leven's portfolio decreased from EUR 3.2 billion 31 December 2020 to EUR 2.9 billion 31 December 2021 mainly caused by renewal of Separate Account (SA) contracts to General Account (GA) contracts.
Businesses in the separate account category are 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.

Risk mitigation
NN Leven currently hedges the value of the guarantees it provided under group pension contracts. 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 (EOF) 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. The hedge programme includes equity basket options, swaps and equity futures.

Other separate account businesses
Risk profile
The other separate account business primarily consists of unit-linked insurance policies and variable annuity (VA) portfolios. Unit-linked insurance policies provide policyholders with selected fund returns combined with an insurance cover. The investment risk is borne by the policyholder, although there are some unit-linked products where NN Leven has provided guarantees on the performance of specific underlying funds. Unit-linked products without guarantees do not expose NN Leven to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds. The variable annuities consist of guaranteed minimum accumulation benefit products, guaranteed minimum death benefit products and guaranteed minimum withdrawal benefit products.

Risk mitigation
The market risks of the unit-linked and other separate account business are managed by the design of the product. Currently, NN Leven does not hedge the market risks related to the present value of future fee income derived from this business. For VA business Leven has hedging programmes in place targeting equity, interest rate, credit spread and FX risk as well as volatility risk.

Risk measurement
NN Group determines eligible own funds for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

Counterparty default risk
Counterparty default risk is the risk of loss due to 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 issuer's probability of default (PD) and the loss-given-default (LGD) of each individual position taking into account diversification across these positions.

The counterparty default risk module also covers any credit risk exposures which are not covered in the spread risk sub-module.

Risk profile
As shown in the 'Solvency II Capital Requirements' table above, the Counterparty default risk SCR of NN Leven decreased from EUR 125 million at the end of 2020 to EUR 39 million at the end of 2021. The decrease in counterparty default risk SCR can mainly be attributed to investments following a capital call from a Private Debt counterparty and the release of an outstanding debt due to renegotiations of a reinsurance contract.

Notes to the Consolidated annual accounts continued

Risk mitigation

NN Leven uses different credit risk mitigation techniques. For OTC derivatives, the exchange of collateral under the International Swaps and Derivatives Associations contracts accompanied with Credit Support Annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral exchange. For cash and money market funds, limits per counterparty are put in place.

Risk measurement

The Counterparty default risk 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, e.g. reinsurance contracts, derivatives and money market exposures. The underlying model is the Ter Berg model (which was also the basis for Standard Formula calibration under Solvency II)
- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated, like retail loans, but also other forms of term lending not covered in Type I

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.

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. Liquidity stress events can be caused by a market-wide event or an idiosyncratic NN Leven specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Since NN Leven trades in derivatives, NN Leven is responsible for maintaining sufficient liquidity levels to meet their collateral requirements. For this purpose liquidity buffers are set to ensure sufficient liquidity is available in an adverse scenario and to ensure the liquidity thresholds are being met. The liquidity position framework estimates the collateral requirements after several interest rate scenarios.

Risk profile

Liquidity risk covers three areas of attention. Operational liquidity risk, is the risk that funds are unavailable to meet financial obligations when due. Market liquidity risk, is the risk that an asset cannot be sold on short-term without significant losses. Funding risk, is the risk related to not being able to refinance maturing debt instruments and may lead to higher funding costs. The connection between market and operational liquidity risk stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash; if market liquidity is low or an adverse market movement took place in this situation, this could lead to a loss.

For NN Leven, the main direct liquidity risk is caused by collateral requirements after interest rates increase. In case interest rates increase, the central clearing mechanism for derivatives will lead to an outflow of cash from NN Leven to its counterparties such that the decreasing market value of the interest rate derivatives is matched.

Risk mitigation

NN Leven aims to match day-to-day cash in- and outflows and at the same time wants to be able to have sufficient cash in case of a liquidity stress event.

NN Group Liquidity Management Principles defines three levels of Liquidity Management:

- Short-term liquidity (including operational liquidity) management covers the day-to-day cash requirements under normal business conditions
- Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- Stress liquidity management looks at the company's ability to respond to a potential crisis situation.

Risk measurement

NN Group Liquidity Risk Management Standard measures liquidity risk in a stress event through the gap between liquidity needs and liquidity sources compared to available liquid assets for sale. This is calculated for different time horizons and different levels of availability of liquidity sources.

Non-market risk

Non-market risks are split between:

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

Risk profile

The table below presents the Non-market risk SCR composition at the end of 2021 and at the end of 2020 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Notes to the Consolidated annual accounts continued

Non-market risk capital requirements

	2021	2020
Insurance risk	4,078	4,997
Business risk	1,339	1,577
Diversification non-market risk	-914	-1,082
Non-market risk	**4,503**	**5,492**

Insurance risk mainly decreased mainly driven by a refinement of the Longevity risk models, by a transfer of longevity risk of approximately EUR 4 billion of liabilities via reinsurance contract and due to higher interest rates. Business risk decreased mainly due to an update of the Expense Inflation risk model and the increased interest rates.

Risk mitigation
Proper pricing, underwriting, claims management and diversification are the main risk mitigating actions for insurance risks.

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
The table below presents the Partial Internal Model Insurance risk SCR for NN Leven at 31 December 2021 and 31 December 2020.

Insurance risk capital requirements

	2021	2020
Mortality (including longevity) risk	4,076	4,996
Morbidity risk	60	45
Diversification insurance risk	-58	-44
Insurance risk	**4,078**	**4,997**

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

Morbidity risk occurs when claims related to disability insurance and to insured premium continuation in case of disability are higher than expected.

Risk mitigation
Insurance risk is mitigated through diversification between mortality and longevity risks within NN Leven, appropriate pricing and underwriting policies and risk transfer via reinsurance which are used to reduce the Own Funds volatility.

In addition to the index-based longevity hedge and longevity reinsurance transactions of 2020 that was already in place, in December 2021 NN Leven reinsured the longevity risk related to an additional EUR approximately 4 billion of pension liabilities externally. Concentration risk is mitigated through spreading the risk over multiple counterparties. CPD risk is further mitigated through collateral mechanisms in place for these transactions.

Risk measurement
Insurance risk decreased from EUR 4,997 million at the end of 2020 to EUR 4,077 million at the end of 2021, mainly driven by a refinement of the Longevity risk models, by a transfer of longevity risk via reinsurance contract and due to higher interest rates. Given the long-term nature of the liability portfolio of NN Leven, the capital requirements underlying insurance risk are sensitive to interest rates and Volatility Adjustment changes due to the discounting impact.

Business risk
Business risk 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.

Notes to the Consolidated annual accounts continued

Risk profile
The table below presents the Partial Internal Model Business risk SCR for NN Leven at 31 December 2021 and 31 December 2020 respectively.

Business risk capital requirements

	2021	2020
Persistency	143	188
Expense	1,311	1,543
Diversification business risk	-116	-154
Business risk	**1,339**	**1,577**

The SCR for business risks is mostly driven by expense risk. The decrease in 2021 can be explained by model and assumption changes and increased interest rates.

Expense risk is the risk that future expenses deviate from expected (best estimate) expense assumptions. Expense level risk addresses the risk that future expenses exceed the originally assumed expenses. This includes the risk that a portion of the expenses will not decrease by the same rate as the number of policies in the in-force book, and the risk that acquisition expenses are not fully covered if the sales volume in the following 12 months is below the assumptions. Expense inflation risk relates to the actual expense development over time not being aligned with the best estimate inflation assumed.

Persistency risks are only material for the Individual Life portfolios. Persistency level uncertainty risk addresses the risk that the level of the best estimate lapse rates has been incorrectly estimated. In other words, this represents the risk that the actual lapse rate level is different from the expected level, best estimate lapse rates. Persistency calamity risk is the risk that a catastrophic event leads to a sharp increase in surrender probabilities, subsequently increasing technical provisions and an associated decrease in own funds. The SCR for persistency calamity risk at a certain point in time is calculated by applying a mass lapse shock on the surrender probabilities.

Risk mitigation
Policyholder behaviour risks, such as persistency 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 choice 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 reduce expenses through the number of underlying contracts in place. This is particularly relevant for the Dutch individual life closed-block business that can only reduce in number of contracts.

In addition to the mitigating actions described, proper pricing, underwriting, claims management, and diversification also mitigate business risks.

VIII. Non-financial risks

- Business operations risk: risks related to inadequate or failed 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) NN Leven's business operations
- Business conduct risk: is the risks related to unethical or irresponsible corporate behaviour, inappropriate employee behaviour and product suitability of products

Business operations and continuity & security risk

Risk profile
Business operations and continuity & security risks are non-financial risks that include direct or indirect losses resulting from inadequate or failed processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

Notes to the Consolidated annual accounts continued

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 (e.g. cybercrime) or internal causes. Cybersecurity is an integral part of NN Leven's risk management strategy
- 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
- Legal risk: the risk that 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

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 Leven's assets (including physically stored data/information) or NN Leven's offices

Risk mitigation
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 execution, and the expected benefits.

Business operations and continuity risks are mitigated through controls. For specific areas like financial reporting, outsourcing of activities, and business continuity, specific policies and standards apply. In the case of outsourcing, an appropriate outsourcing agreement is required between outsourcing parties and the performance under the outsourcing agreement is required to be monitored regularly.

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 requirements from 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 controls.

The Chief Information Officer (CIO) function ensures Business Continuity Management, Cyber risk management and Business Information Security.

For IT risks, CIO has adopted the Standard of Good Practice of the Information Security Forum (ISF) as the basis to manage IT, cyber and cloud risks within NN Leven. ISF forms the basis of NN Leven's ISF Policy and Standard, and ensures a consistent view and treatment of its risks in this area. Cyber security is an integral part of NN Leven's risk management strategy. Education and awareness-raising are part of the security strategy at all levels of the organisation.

Main regular activities undertaken to manage this risk are amongst others:

- Regular IT risk assessments are performed on critical business environments, applications and supporting systems/networks, and testing of security measures is performed on a regular basis. Identified risks are documented, classified and monitored in the Security Action Plans.
- User identification and access management are in place, based on defined authorisation matrices and enforcing segregation of duties (especially for administrative accounts). Password parameters are system-enforced for user accounts on the network and critical applications. Multi-factor authentication on business-critical applications is required as an additional measure for protecting against unauthorized access.
- Anti-malware and anti-virus tooling and file integrity checking are implemented and kept up-to-date.
- Effective security logging and monitoring is defined and corrective actions are taken for identified vulnerabilities. A security incident process is in place, and incidents are registered, assessed and solved within a predefined timeframe.
- Networks are protected by intrusion detection and prevention systems. All hardware and software on the network are monitored so that only authorised devices and software is granted access. The security configuration of laptops, servers, and workstations is managed via a configuration management and change control process.
- Data are classified based on their relevance and confidentiality. Depending on their risk classification, data are secured and encrypted according to required security standards.
- A change management process exists and is required for relevant systems and infrastructure, including relevant steps to ensure security such as impact analyses, testing, fall back scenarios and post implementation review

Notes to the Consolidated annual accounts continued

Information Risk Management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness of NN Leven's risks and controls.

Risk measurement

NN Leven's SCR for operational risk decreased from EUR 526 million at the end of 2020 to EUR 490 million at the end of 2021. The SCR is calculated based on the Standard Formula. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Leven risks. Business conduct risk is considered to be part of the Operational risk SCR and is therefore not specifically calculated. Progress is also tracked through monitoring control effectiveness and timeliness as well as tracking progress of open issues.

Business conduct risk

Risk profile

Through NN Leven's retirement services, insurance and investments products, NN Leven is committed to help its customers care for what matters most to them. To fulfil this purpose, NN Leven bases its work on three core values: care, clear, commit. These values set the standard for conduct and provide a compass for decision-making. Further, NN Leven is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates. All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for ensuring such compliance. Compliance is therefore an essential ingredient of good corporate governance. NN Leven continuously enhances its business conduct risk management programme to ensure that NN Leven complies with international standards and laws.

Risk mitigation

NN Leven separates business conduct risk into three risk areas: Sound business conduct, employee conduct and product suitability. In addition to effective reporting systems, NN Leven has also a whistleblower policy and procedure which protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or its values. NN Leven also has policies and procedures regarding anti-money laundering, anti-terrorist financing, sanctions, anti-bribery and corruption, product 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 of facilitation) involving those countries.

NN Leven performs a product approval and review process for its 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 (changing) market situation, customer expectations, and regulatory activity. The Compliance Function and the business work closely together with the aim to anticipate changing customers' needs.

45 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 availability of cash resources of NN Leven. 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, an 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 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 from 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 liquid assets – in some cases subject to a haircut - divided by the expected outflow including lapses in a severe stress scenario. The short-term perspective is based on a one-day horizon and compares directly available cash divided with a one-day shock in cash outflow because of collateral calls in the derivative portfolio.

Notes to the Consolidated annual accounts continued

Per year end 2021 NN Leven has outstanding external short-term borrowing covered by securities lending transactions for the amount of EUR 500 million. The purpose of the short-term borrowing is to cover possible liquidity requirements out of collateral obligations for the derivatives from NN Leven during the period of potentially lower marked liquidity around the year end.

Main events in 2021

During 2021 a total amount of EUR 980 million dividend was paid with 245 million each quarter. All scheduled coupon payments on the subordinated liabilities were met during the year.

EIOPA reduced the UFR as from 1 January 2021 from 3.75% to 3.60%. Per year closing the UFR stands at 3.60%, on 1 January 2022 it is reduced further to 3.45%.

EIOPA's Opinion on the Solvency II review to the European Commission was published on 17 December 2020. The Opinion consists of a proposed package of measures and will be used as input for the European Commission (EC) to draft a legislative proposal which will be discussed with the European Council and European Parliament in the coming years. On 22 September 2021 EC published as part of the Solvency II 2020 Review the proposed Level I texts (Directive) and insights in the upcoming Level II (Delegated Acts) regulations. Since this proposal mainly contains details on the Solvency II Directive, full detailed specifications of Delegated Acts are not yet clear. Furthermore, this EC proposal forms the basis for the upcoming political process, which can take several quarters and can lead to further changes in the proposals. The EC advice is on many items broadly in line with the earlier EIOPA proposal published in December 2020.

However, there are some noteworthy changes in the EC advice:
- Interest rate curve: The implementation of the alternative extrapolation methodology used for the valuation of (long) insurance cash-flows will lead to a higher valuation of liabilities. The phasing-in of this negative impact will follow a simpler phasing-in mechanism and the initial impact on the Solvency II ratio is expected to be smaller compared to the original EIOPA proposals.
- Risk margin: EC will consider to lower the cost-of-capital rate from 6% to 5%. Furthermore, it is considered to remove the floor in the so called "lambda approach" that was part of the EIOPA advice. These changes will lower the valuation of the risk margin. The exact details will be part of the Level II regulations, but the EC already included in its communication that these changes are considered.
- Volatility Adjustment and Enhanced Prudency Principle: The entity specific liquidity haircut for volatility adjustment is not included in the proposals of the EC. This will increase the effectiveness of the Volatility Adjustment compared to the EIOPA advice. This change also impacts the Enhanced Prudency Principle.

The resulting updated legislation is currently expected to be implemented at the earliest in 2024. In the comprehensive review, further regulations on liquidity risk management are announced, that will take further shape in the coming years.

In the meeting of 23 September 2021, the General Board of the ERSB noted that the recommendation on restricting dividends for financial institutions should lapse at the end of September 2021. It reconfirmed the need for financial institutions to remain prudent when proposing dividends. These recommendation from ESRB have been taken into consideration when assessing the dividend proposals. When preparing the dividends, analysis has been performed to assess the impact of COVID-19 and the related volatility on financial markets on the financial situation of NN Leven.

In the third quarter of 2021, NN Leven implemented the updated DNB Q&A on saving mortgages in the reported solvency figures. The impact was not material.

In 2021, the internal liquidity risk management framework of NN Leven has been updated in line with the observable developments and in expectations to the regulatory changes with respect to liquidity management included in proposal to the Solvency II Directive issued on 22 September. Also, in 2021 the strategic asset allocation (SAA) of NN Leven was updated as part of the regular review and update cycle.

In 2021 the parliament approved an increase from 25% to 25.8% of the corporate income tax rate, as part of the updated Tax Plan. The effects of this update are included in the year end solvency figures. The increase in the corporate tax rate led to a small improvement in the Solvency ratio.

NN Leven completed a reinsurance transaction in December 2021 to transfer the full longevity risk associated with approximately EUR 4 billion of pension liabilities. The transaction has been entered with Reinsurance Group of America, and the risk transfer is effect as of 31 December 2021. The reinsurance agreement will continue until the portfolio has run off in its entirety.

Events after year-end

In March 2022, NN Leven made a dividend distribution of EUR 245 million from the Other reserves to its shareholder NN Nederland. The solvency ratio per year end 2021 has not been adjusted for this dividend payment.

On 15 February 2022, NN Leven, ABN AMRO Bank and their joint venture AAV announced that they have reached an agreement to sell the life insurance subsidiary of AAV to NN Leven for a total amount of EUR 253 million. This transaction will be financed from existing cash resources of NN Leven. AAV is a joint venture between NN Group (51%) and ABN AMRO Bank (49%). Following the transaction, AAV intends to distribute the proceeds from the transaction, after deduction of costs related to the transaction, to its shareholders NN Group and ABN AMRO Bank. The transaction is expected to have a limited impact on the solvency II ratio of NN Leven. The transaction is subject to regulatory approvals and is expected to close in the second half of 2022.

Notes to the Consolidated annual accounts continued

Solvency II

Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU. It 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.

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. Reference is made to Note 38 'Legal proceedings'.

NN Leven is well capitalised at 31 December 2021 with a Solvency II ratio of 219% based on the Partial Internal Model.

Facility Agreement

Nationale-Nederlanden Interfinance B.V. (NNIF) and NN Leven have a facility agreement in place, providing NN Leven for the possibility to borrow short term funds from NNIF up to a maximum amount of EUR 1.000 million. The facility agreement is regularly renewable, and has been renewed in January 2022. The available funds are dependent on the available liquidity in NNIF and its own liquidity requirements. The funds may only be used to provide for liquidity needs at NN Leven related to collateral calls resulting from its derivative position. Interest is based on EONIA. When the liquidity requirements of NNIF exceed certain thresholds, NN Leven is required to pay back (part of) the funds drawn under the facility.

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 the following subordinated liabilities.

Interest rate	Year of issue	Notional amount	Due date	First call date	Own Funds tier	Fair value (dirty) 2021[1]	Fair value (dirty) 2020[1]
4.52% (quarterly)[2]	2014	450 million	Perpetual	Each quarter	Tier 1	453 million	453 million
7.6% (annual)	2016	350 million	Perpetual	31 December 2026	Tier 1	357 million	366 million
5.6% (annual)[2]	2014	600 million	10 February 2044	10 February 2024	Tier 2	655 million	671 million
9.0% (annual)[2]	2012	500 million	29 August 2042	29 August 2022	Tier 2	521 million	530 million

1 As defined based on Solvency II valuation guidelines.

2 These notes are grandfathered for a maximum period of 10 years until 1 January 2026

The 9.0% EUR 500 million loan is due to external counterparties. The other three subordinated loans are borrowed from NN Group N.V.

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

	2021	2020
Total equity	25,313	29,508
Elimination of deferred acquisition costs and other intangible assets	-285	-289
Valuation differences on assets	1,928	2,141
Valuation differences on liabilities, including insurance and investment contracts	-19,879	-25,941
Deferred tax effect on valuation differences	4,686	6,002
Excess assets/liabilities	**11,763**	**11,421**
Qualifying subordinated debt	1,986	2,020
Foreseeable dividends and distributions	-47	-47
Basic Own Funds	**13,702**	**13,394**
Non-eligible Own Funds	-173	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	**13,529**	**13,394**
Solvency Capital Requirements (b)	**6,187**	**6,095**
NN Leven Solvency II ratio (a/b)[1]	**219%**	**220%**

1 The Solvency ratio for 2021 is not final until filed with the regulators. Solvency II ratios are based on the Partial Internal Model.

Capital adequacy assessment

On 31 December 2021 the SCR based on the PIM is EUR 6,187 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 13,529 million, leading to a Solvency II ratio of 219%. The capital position of NN Leven met all regulatory solvency requirements following the Solvency II directive throughout 2021.

Notes to the Consolidated annual accounts continued

Eligible Own Funds

NN Leven Own Funds are classified into three tiers as follows:

- The excess of assets over liabilities excluding net Deferred Tax Asset is classified as Tier 1
- Net Deferred Tax Asset is classified as Tier 3
- The perpetual subordinated debt is classified as (restricted) Tier 1
- The 2042 and 2044 subordinated debt is classified as Tier 2

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

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount
- Tier 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;
- The proportion of Tier 1 items in the EOF should be higher than one third of the total amount of EOF;
- Tier 3 capital cannot exceed one third of the total amount of EOF.

Eligible Own Funds to cover Solvency Capital Requirement

2021	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**11,424**			**11,424**
Of which:				
- unrestricted Tier 1	10,614			10,614
- restricted Tier 1	810	Less than 20% Tier 1		810
Tier 2 + Tier 3	**2,278**	**Less than 50% SCR**	**-173**	**2,105**
Tier 2	1,176			1,176
Tier 3	1,102	Less than 15% SCR	-173	929
Total	**13,702**			**13,529**

2020	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**11,319**			**11,319**
Of which:				
- unrestricted Tier 1	10,500			10,500
- restricted Tier 1	819	Less than 20% Tier 1		819
Tier 2 + Tier 3	**2,075**	**Less than 50% SCR**		**2,075**
Tier 2	1,201			1,201
Tier 3	874	Less than 15% SCR		874
Total	**13,394**			**13,394**

Credit ratings

On 5 November 2021, Fitch Ratings affirmed NN Leven's 'AA-' insurer financial strength ratings with stable outlook. On 9 December 2021, S&P Global Ratings affirmed NN Leven's 'A' insurer financial strength ratings and issuer credit rating with a stable outlook.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Leven for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Management Board on 28 March 2022. 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, 28 March 2022

The Management Board

L.M. (Leon) van Riet, CEO and chair

A. (Arun) Sivaramakrishnan, CFO

W.G. (Wilbert) Ouburg, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

The Supervisory Board

J.L. (Janet) Stuijt, chair

D. (Delfin) Rueda, vice-chair

J.W. (Hans) Schoen

Confirmed and adopted by the General Meeting, dated 23 May 2022.

Parent company annual accounts

Parent company balance sheet

Amounts in millions of euros, unless stated otherwise

Parent company balance sheet

As at 31 December	notes	2021	2020
Assets			
Cash and cash equivalents	2	43	36
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		27,229	23,742
– non-trading derivatives		6,137	14,022
– designated as at fair value through profit or loss		430	440
Available-for-sale investments	4	64,424	70,768
Loans	5	39,861	40,292
Reinsurance contracts		1,200	1,437
Subsidiaries, associates and joint ventures	6	11,560	9,249
Real estate investments	7	89	88
Property and equipment	8	39	44
Intangible assets		50	54
Deferred acquisition costs		235	235
Deferred tax assets	16	27	0
Other assets	9	3,112	4,150
Total assets		**154,436**	**164,557**
Equity			
Shareholder's equity (parent)		25,313	29,508
Undated subordinated loan		800	800
Total equity	10	**26,113**	**30,308**
Liabilities			
Subordinated debt		1,120	1,149
Other borrowed funds	11	531	204
Insurance and investment contracts		115,766	114,527
Financial liabilities at fair value through profit or loss:			
– non-trading derivatives		1,673	3,357
Deferred tax liabilities	16	3,612	5,129
Other liabilities	12	5,621	9,883
Total liabilities		**128,323**	**134,249**
Total equity and liabilities		**154,436**	**164,557**

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		2021		2020
Gross premium income			3,981		3,534
Investment income	13		3,965		3,154
– gross fee and commission income		23		40	
– fee and commission expenses		-126		-122	
Net fee and commission income	14		-103		-82
Valuation results on non-trading derivatives	15		-315		861
Foreign currency results[1]			433		-378
Share of result from subsidiaries, associates and joint ventures	6		1,033		221
Other income			7		31
Total income			**9,001**		**7,341**
– gross underwriting expenditure		9,773		7,573	
– investment result for risk of policyholders		-3,173		-1,486	
– reinsurance recoveries		-1,028		-985	
Underwriting expenditure			5,572		5,102
Staff expenses			202		221
Interest expenses			166		154
Other operating expenses			224		232
Total expenses			**6,164**		**5,709**
Result before tax			**2,837**		**1,632**
Taxation	16		373		321
Net result			**2,464**		**1,311**
Net result attributable to:					
Shareholder of the parent			2,464		1,311
Net result			**2,464**		**1,311**

1 The foreign currency results relate mainly to investment in debt securities in US-dollars. The foreign exchange risk on these investments is mitigated by foreign exchange derivatives and is recognised under valuation results on non-trading derivatives.

Parent company statement of comprehensive income

Parent company statement of comprehensive income

For the year ended 31 December		2021		2020
Net result		**2,464**		**1,311**
Items that may be reclassified subsequently to the profit and loss account:				
– unrealised revaluations available-for-sale investments and other	-1,938		3,100	
– realised gains/losses transferred to the profit and loss account	-1,591		-824	
– changes in cash flow hedge reserve	-3,264		3,274	
– deferred interest credited to policyholders	1,273		-373	
Total other comprehensive income		**-5,520**		**5,177**
Total comprehensive income		**-3,056**		**6,488**
Comprehensive income attributable to:				
Shareholder of the parent	-3,056		6,488	
Total comprehensive income		**-3,056**		**6,488**

Parent company statement of cash flows

Parent company statement of cash flows

For the year ended 31 December	notes	2021	2020
Result before tax		2,837	1,632
Adjusted for:			
- depreciation		4	5
- deferred acquisition costs and value of business acquired		11	13
- underwriting expenditure (change in insurance liabilities)		-454	105
- realised results and impairments of available-for-sale investments		-2,030	-308
- other		-133	-334
Taxation paid		-158	12
Changes in:			
- non-trading derivatives		1,557	1,843
- other financial assets at fair value through profit or loss		56	19
- other assets		1,478	812
- other liabilities		-4,218	2,462
Net cash flow from operating activities		**-1,050**	**6,261**
Investments and advances:			
- subsidiaries, associates and joint ventures	6	-1,184	-1,099
- available-for-sale investments	4	-7,036	-7,984
- real estate investments	7	0	-2
- investments for risk of policyholders		-5,253	-6,367
- loans		-18,583	-14,348
Disposals and redemptions:			
- subsidiaries, associates and joint ventures	6	1	142
- available-for-sale investments	4	10,062	9,948
- investments for risk of policyholders		4,950	6,357
- loans		18,801	7,989
Net cash flow from investing activities		**1,758**	**-5,364**
Proceeds from other borrowed funds	11	500	2,500
Repayments of other borrowed funds	11	-174	-2,501
Dividend paid		-980	-870
Coupon on undated subordinated loan		-47	-47
Net cash flow from financing activities		**-701**	**-918**
Net cash flow		**7**	**-21**
Cash and cash equivalents at beginning of the period	2	36	57
Net cash flow		7	-21
Cash and cash equivalents at end of the period		**43**	**36**

Included in Net cash flow from operating activities:

For the year ended 31 December	2021	2020
Interest received	2,539	2,614
Interest paid	-227	-188
Dividend received	394	493

Parent company statement of changes in equity

Parent company statement of changes in equity

	Share capital	Share premium	Share of associates reserve	Reserves	Total Shareholder's equity (parent)	Undated subordinated loan	Total equity
Balance at 1 January 2021	**23**	**3,228**	**1,606**	**24,651**	**29,508**	**800**	**30,308**
Unrealised revaluations property in own use	0	0	0	0	0	0	0
Unrealised revaluations available-for-sale investments and other	0	0	469	-2,407	-1,938	0	-1,938
Realised gains/losses transferred to the profit and loss account	0	0	0	-1,591	-1,591	0	-1,591
Changes in cash flow hedge reserve	0	0	0	-3,264	-3,264	0	-3,264
Deferred interest credited to policyholders	0	0	0	1,273	1,273	0	1,273
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**469**	**-5,989**	**-5,520**	**0**	**-5,520**
Net result	0	0	0	2,464	2,464	0	2,464
Total comprehensive income	**0**	**0**	**469**	**-3,525**	**-3,056**	**0**	**-3,056**
Changes in the composition of the group and other changes	0	0	0	-124	-124	0	-124
Transfer to/from Share of associates reserve	0	0	582	-582	0	0	0
Dividend	0	0	0	-980	-980	0	-980
Coupon on undated subordinated loan	0	0	0	-35	-35	0	-35
Balance at 31 December 2021	**23**	**3,228**	**2,657**	**19,405**	**25,313**	**800**	**26,113**

	Share capital	Share premium	Share of associates reserve	Reserves	Total Shareholder's equity (parent)	Undated subordinated loan	Total equity
Balance at 1 January 2020	**23**	**3,228**	**1,479**	**19,195**	**23,925**	**800**	**24,725**
Unrealised revaluations property in own use	0	0	0	0	0	0	0
Unrealised revaluations available-for-sale investments and other	0	0	30	3,070	3,100	0	3,100
Realised gains/losses transferred to the profit and loss account	0	0	0	-824	-824	0	-824
Changes in cash flow hedge reserve	0	0	0	3,273	3,273	0	3,273
Deferred interest credited to policyholders	0	0	0	-373	-373	0	-373
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**30**	**5,146**	**5,176**	**0**	**5,176**
Net result	0	0	0	1,311	1,311	0	1,311
Total comprehensive income	**0**	**0**	**30**	**6,457**	**6,487**	**0**	**6,487**
Changes in the composition of the group and other changes	0	0	0	1	1	0	1
Transfer to/from Share of associates reserve	0	0	97	-97	0	0	0
Dividend	0	0	0	-870	-870	0	-870
Coupon on undated subordinated loan	0	0	0	-35	-35	0	-35
Balance at 31 December 2020	**23**	**3,228**	**1,606**	**24,651**	**29,508**	**800**	**30,308**

'Reserves' include 'Revaluation reserve', 'Legal reserve', 'Retained earnings' and 'Unappropriated result'.

Notes to the Parent company annual accounts

1 Accounting policies

The Parent company annual accounts of NN Leven are prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS-EU). 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.

Applicable Accounting Policies

Where applicable, for items not described in this section, the accounting policies applied for the Parent company annual accounts are the same as those described in the accounting policies for the Consolidated annual accounts. For the items not separately disclosed in the notes to the company financial statement, reference is made to the notes in the Consolidated annual accounts.

Subsidiaries, associates and joint ventures

Subsidiaries and associates are companies and other entities in which NN Leven has the power, directly or indirectly, to govern the financial and operating policies and that are controlled by NN Leven. Subsidiaries are recognised using the equity method of accounting.

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'.

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.

2 Cash and cash equivalents

Cash and cash equivalents

	2021	2020
Cash and bank balances	43	35
Short term deposits	0	1
Cash and cash equivalents	**43**	**36**

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2021	2020
Investments for risk of policyholders	27,229	23,742
Non-trading derivatives	6,137	14,022
Designated as at fair value through profit or loss	430	440
Financial assets at fair value through profit or loss	**33,796**	**38,204**

Investments for risk of policyholders

	2021	2020
Equity securities	26,449	22,816
Debt securities	55	86
Loans and receivables	725	840
Investments for risk of policyholders	**27,229**	**23,742**

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

Non-trading derivatives

	2021	2020
Derivatives used in:		
- cash flow hedges	4,609	10,028
Other non-trading derivatives	1,528	3,994
Non-trading derivatives	**6,137**	**14,022**

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

Notes to the Parent company annual accounts continued

Designated as at fair value through profit or loss

	2021	2020
Equity securities	402	416
Debt securities	26	26
Other	2	-2
Designated as at fair value through profit or loss	**430**	**440**

4 Available-for-sale investments

Available-for-sale investments

	2021	2020
Equity securities	6,634	7,332
Debt securities	57,790	63,436
Available-for-sale investments	**64,424**	**70,768**

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2021	2020	2021	2020	2021	2020
Available-for-sale investments - opening balance	7,332	5,226	63,436	63,984	70,768	69,210
Additions	1,163	2,655	5,873	5,329	7,036	7,984
Amortisation	0	0	-157	-189	-157	-189
Transfers and reclassifications	0	15	0	0	0	15
Changes in unrealised revaluations	591	1,084	-4,174	3,126	-3,583	4,210
Impairments	-23	-98	1	-1	-22	-99
Disposals and redemptions	-2,426	-1,555	-7,636	-8,393	-10,062	-9,948
Exchange rate differences	25	2	447	-420	472	-418
Changes in the composition of the group and other changes	-28	3	0	0	-28	3
Available-for-sale investments - closing balance	**6,634**	**7,332**	**57,790**	**63,436**	**64,424**	**70,768**

The total exposure to debt securities is included in the following balance sheet lines:

Total exposure to debt securities

	2021	2020
Available-for-sale investments	57,790	63,436
Loans	275	651
Available-for-sale investments and Loans	**58,065**	**64,087**
Investments for risk of policyholders	55	86
Designated as at fair value through profit or loss	26	26
Financial assets at fair value through profit or loss	**81**	**112**
Total exposure to debt securities	**58,146**	**64,199**

The total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale-investments		Loans		Total	
	2021	2020	2021	2020	2021	2020
Government bonds	40,246	45,300	0	0	40,246	45,300
Corporate bonds	11,791	11,807	0	0	11,791	11,807
Financial institution bonds	4,425	4,992	0	0	4,425	4,992
ABS portfolio	1,328	1,337	275	651	1,603	1,988
Debt securities - Available-for-sale investments and Loans	**57,790**	**63,436**	**275**	**651**	**58,065**	**64,087**

Available-for-sale equity securities

	2021	2020
Listed	4,859	5,570
Unlisted	1,775	1,762
Available-for-sale equity securities	**6,634**	**7,332**

Notes to the Parent company annual accounts continued

5 Loans

Loans

	2021	2020
Loans secured by mortgages	33,043	29,601
Loans related to savings mortgages	1,550	1,664
Loans to or guaranteed by public authorities	1,277	1,617
Asset-backed securities	275	651
Policy loans	7	8
Other loans	3,823	6,875
Loans - before loan loss provisions	**39,975**	**40,416**
Loan loss provisions	-114	-124
Loans	**39,861**	**40,292**

Other contains EUR 1,524 million (2020: 4,270 million) of loans with NN Group companies.

Changes in Loans secured by mortgages

	2021	2020
Loans secured by mortgages – opening balance	29,601	27,461
Additions/ origination	6,300	4,691
Redemption	-2,743	-1,937
Amortisation	-109	-132
Disposals	0	-475
Impairments and write-offs	0	-1
Changes in the composition of the group and other changes	-6	-6
Loans secured by mortgages – closing balance	**33,043**	**29,601**

Changes in Loans loss provisions

	2021	2020
Loan loss provisions - opening balance	124	114
Write-offs	-6	-5
Increase/decrease in loan loss provisions	-4	13
Other changes	0	2
Loan loss provisions - closing balance	**114**	**124**

6 Subsidiaries, associates and joint ventures

Subsidiaries, associates and joint ventures (2021)

Name	Statutory seat	Interest held	Balance sheet value
REI Investment I B.V.	The Hague, the Netherlands	80%	5,778
REI Diaphane Fund FGR	The Hague, the Netherlands	80%	1,326
Private Equity Investments II B.V.	The Hague, the Netherlands	86%	88
Infrastructure Equity Investments B.V.	The Hague, the Netherlands	95%	291
Private Equity Investments B.V.	The Hague, the Netherlands	94%	942
Private Debt Investments B.V.	The Hague, the Netherlands	100%	1,499
Vesteda Residential Fund FGR	Amsterdam, the Netherlands	21%	1,574
Other			62
Subsidiaries, associates and joint ventures			**11,560**

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

Subsidiaries, associates and joint ventures (2020)

Name	Statutory seat	Interest held	Balance sheet value
REI Investment I B.V.	The Hague, the Netherlands	85%	4,947
REI Diaphane Fund FGR	The Hague, the Netherlands	85%	1,170
Private Equity Investments II B.V.	The Hague, the Netherlands	86%	111
Infrastructure Equity Investments B.V.	The Hague, the Netherlands	100%	89
Private Equity Investments B.V.	The Hague, the Netherlands	94%	625
Private Debt Investments B.V.	The Hague, the Netherlands	100%	936
Vesteda Residential Fund FGR	Amsterdam, the Netherlands	21%	1,310
Other			61
Subsidiaries, associates and joint ventures			**9,249**

Notes to the Parent company annual accounts continued

Changes in Subsidiaries, associates and joint ventures

	2021	2020
Subsidiaries, associates and joint ventures - opening balance	9,249	8,369
Additions	1,184	1,099
Disposals	-1	-142
Share in change in equity (revaluations)	338	43
Share of results	1,033	221
Dividends received	-235	-340
Changes in the composition of the group and other changes	-8	-1
Subsidiaries, associates and joint ventures - closing balance	**11,560**	**9,249**

7 Real estate investments

Changes in Real estate investments

	2021	2020
Real estate investments - opening balance	88	84
Additions	0	2
Fair value gains/(losses)	1	2
Real estate investments - closing balance	**89**	**88**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2021 is EUR 3.9 million (2020: EUR 2.8 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 2021 is EUR 0.8 million (2020: EUR 0.3 million).

In percentages	2021	2020
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

	2021	2020
Real estate investments	89	88
Investments - available-for-sale	10	11
Associates and joint ventures	8,689	7,437
Property and equipment - property in own use	1	1
Total Real estate exposure	**8,789**	**7,537**

8 Property and Equipment

Property and Equipment

	2021	2020
Property in own use	2	2
Equipment	0	0
Property and equipment owned	**2**	**2**
Right of use assets	37	42
Property and equipment	**39**	**44**

Changes in Property in own use

	2021	2020
Property in own use – opening balance	2	2
Revaluations	0	0
Property in own use – closing balance	**2**	**2**
Gross carrying value	2	2
Accumulated depreciation, revaluations and impairments	0	0
Net carrying value	**2**	**2**
Revaluation surplus – opening balance	8	8
Revaluation in year	0	0
Revaluation surplus – closing balance	**8**	**8**

Notes to the Parent company annual accounts continued

Changes in Right of use assets - Property

	2021	2020
Right of use assets – opening balance	42	44
Depreciation	-5	-4
Changes in the composition of the group and other changes	0	2
Right of use assets – closing balance	**37**	**42**
Gross carrying value	50	50
Accumulated depreciation	-13	-8
Net carrying value	**37**	**42**

9 Other assets

Other assets

	2021	2020
Insurance and reinsurance receivables	202	271
Income tax receivable	0	0
Accrued interest and rents	949	1,044
Other accrued assets	14	9
Cash collateral amounts paid	258	480
Other	1,689	2,346
Other assets	**3,112**	**4,150**

Other contains EUR 1,531 million (2020: EUR 2,276 million) of current accounts with NN Group companies.

Insurance and reinsurance receivables

	2021	2020
Receivables on account of direct insurance from:		
- policyholders	197	189
- intermediaries	1	12
Reinsurance receivables	4	70
Insurance and reinsurance receivables	**202**	**271**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 3 million as at 31 December 2021 (2020: EUR 6 million). The receivables are presented net of this allowance.

10 Equity

Equity

	2021	2020
Share capital	23	23
Share premium	3,228	3,228
Revaluation reserve	12,464	18,452
Share of associates reserve	2,657	1,606
Retained earnings and unappropriated result	6,941	6,199
Shareholder's equity (parent)	**25,313**	**29,508**
Undated subordinated loan	800	800
Total equity	**26,113**	**30,308**

Share of associates reserve

	2021	2020
Unrealised revaluations within consolidated group companies	525	211
Currency translation reserve	-41	-48
Reserve for non-distributable retained earnings of associate	1,838	1,257
Revaluations on investment property and certain participations recognised in income	335	186
Share of associates reserve	**2,657**	**1,606**

11 Other borrowed funds

Other borrowed funds

	2021	2020
Other borrowed funds - opening balance	204	205
Additions	500	2,500
Disposals	-173	-2,501
Other borrowed funds - closing balance	**531**	**204**

Notes to the Parent company annual accounts continued

12 Other liabilities

Other liabilities

	2021	2020
Income tax payable	23	27
Other taxation and social security contributions	63	64
Deposits from reinsurers	1,198	1,393
Lease liabilities	39	43
Accrued interest	94	126
Costs payable	12	8
Amounts payable to brokers	2	3
Amounts payable to policyholders	661	830
Other provisions	12	17
Amounts to be settled	268	270
Cash collateral amounts received	3,086	6,991
Other	163	111
Other liabilities	**5,621**	**9,883**

13 Investment income

Investment income

	2021	2020
Interest income from investments in debt securities	1,221	1,216
Interest income from loans	846	878
Interest income from Investment in debt securities and loans	**2,067**	**2,094**
Realised gains/losses on disposal of available-for-sale debt securities	544	534
Impairment of available-for-sale debt securities	1	-1
Realised gains/losses and impairments of available-for-sale debt securities	**545**	**533**
Realised gains/losses on disposal of available-for-sale equity securities	1,048	290
Impairments of available-for-sale equity securities	-24	-98
Realised gains/losses and impairments of available-for-sale equity securities	**1,024**	**192**
Interest income on non-trading derivatives	162	191
Increase/decrease in loan loss provisions	4	-13
Income from real estate investments	2	2
Dividend income	160	153
Change in fair value of real estate investments	1	2
Investment income	**3,965**	**3,154**

14 Net fee and commission income

Net fee and commission income

	2021	2020
Asset management fees	29	46
Insurance brokerage and advisory fees	-10	-9
Other	4	3
Gross fee and commission income	**23**	**40**
Asset management fees	-119	-119
Commission expenses and other	-7	-3
Fee and commission expenses	**-126**	**-122**
Net Fee and commission income	**-103**	**-82**

Notes to the Parent company annual accounts continued

15 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2021	2020
Change in fair value of derivatives relating to:		
- fair value hedges	0	-186
- cash flow hedges (ineffective portion)	-10	2
- other non-trading derivatives	-334	848
Net result on non-trading derivatives	**-344**	**664**
Change in fair value of assets and liabilities (hedged items)	-3	186
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	32	11
Valuation results on non-trading derivatives	**-315**	**861**

16 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 23 million (2020: EUR 27 million payable). It concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 12 'Other liabilities'.

Deferred tax (2021)

	Net liability 2020	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2021[1]
Investments	3,541	-969	-5	0	0	2,567
Real estate investments	680	0	120	0	0	800
Acquisition costs	42	0	-2	0	0	40
Fiscal equalisation reserve	0	0	49	0	0	49
Insurance liabilities	-3,073	359	-131	-7	-2	-2,854
Cash flow hedges	3,939	-964	0	0	0	2,975
Other provisions	-7	0	0	7	0	0
Other	7	-1	2	0	0	8
Deferred tax	**5,129**	**-1,575**	**33**	**0**	**-2**	**3,585**
Presented in the balance sheet as:						
Deferred tax liabilities	5,129					3,612
Deferred tax assets	0					-27
Deferred tax	**5,129**					**3,585**

1 Positive amounts are liabilities, negative amounts are assets.

Deferred tax (2020)

	Net liability 2019	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2020[1]
Investments	2,336	1,207	4	-6	0	3,541
Real estate investments	503	0	178	-1	0	680
Acquisition costs	44	0	-1	0	0	43
Insurance liabilities	-2,416	-421	-236	1	0	-3,072
Cash flow hedges	2,389	1,550	0	0	0	3,939
Other provisions	0	0	-7	0	0	-7
Receivables	-1	0	0	-1	0	-2
Loans	-6	0	0	6	0	0
Unused tax losses carried forward	0	0	0	0	0	0
Other	4	1	2	0	0	7
Deferred tax	**2,853**	**2,337**	**-60**	**-1**	**0**	**5,129**
Presented in the balance sheet as:						
Deferred tax liabilities	2,853					5,129
Deferred tax assets	0					0
Deferred tax	**2,853**					**5,129**

1 Positive amounts are liabilities, negative amounts are assets.

Notes to the Parent company annual accounts continued

Deferred tax on unused tax losses carried forward

	2021	2020
Total unused tax losses carried forward	0	0
Unused tax losses carried forward recognised as a deferred tax asset	**0**	**0**
Average tax rate	25.0%	25.0%
Deferred tax asset	**0**	**0**

Total unused tax losses carried forward analysed by term of expiration

	No deferred tax asset recognised		Deferred tax asset recognised	
	2021	2020	2021	2020
More than 5 years but less than 10 years	0	0	0	0
Total	**0**	**0**	**0**	**0**

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

Taxation on result

	2021	2020
Current tax	341	381
Deferred tax	32	-60
Taxation on result	**373**	**321**

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

	2021	2020
Result before tax	2,837	1,632
Weighted average statutory tax rate	25.0%	24.9%
Weighted average statutory tax amount	**709**	**407**
Participation exemption	-366	-102
Other income not subject to tax and other	32	16
Expenses not deductible for tax purposes	1	2
Impact on deferred tax from change in tax rates	-3	10
Adjustments to prior periods	0	-12
Effective tax amount	**373**	**321**
Effective tax rate	**13.1%**	**19.7%**

In 2021, the effective tax rate of 13.1% was lower than the weighted average statutory tax rate of 25%. This is mainly a result of tax-exempt results of associates and participations. This was partly offset by other income which was not subject to tax. In 2020, the effective tax rate of 19.7% was lower than the weighted average statutory tax rate of 24.9%. This was mainly a result of tax-exempt results of associates and participations as well as a benefit following a reassessment of prior year tax liabilities in the Netherlands as a result of the filing of the relevant tax return.

In 2021, the Dutch corporate income tax rates were amended, so that the tax rate for 2022 will increase from 25% to 25.8%. As a result, the deferred tax assets and liabilities of NN Leven were remeasured in 2021 to the enacted new rate. The net impact of the tax rate change in 2021 was EUR – 3 million.

Taxes on components of other comprehensive income

	2021	2020
Unrealised revaluations Available for sale investment and other	1,129	-1,256
Realised gains/losses transferred to the profit and loss account	14	279
Changes in cash flow hedge reserve	965	-1,551
Deferred interest credited to policyholders	-359	421
Income tax	**1,749**	**-2,107**

17 Other

Assets not freely disposable

For further explanation of the assets that are not freely disposable reference is made to Note 34 '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 37 'Contingent liabilities and commitments' in the Consolidated annual accounts.

Notes to the Parent company annual accounts continued

Related parties

For further explanation of the related parties reference is made to Note 41 'Related parties' in the Consolidated annual accounts.

18 Subsequent events

For subsequent events of NN Leven reference is made to Note 43 'Subsequent events' in the Consolidated annual accounts.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Leven for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Management Board on 28 March 2022. 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 annual accounts, propose amendments and then adopt the Parent company annual accounts after a normal due process.

Rotterdam, 28 March 2022

The Management Board

L.M. (Leon) van Riet, CEO and chair

A. (Arun) Sivaramakrishnan, CFO

W.G. (Wilbert) Ouburg, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

The Supervisory Board

J.L. (Janet) Stuijt, chair

D. (Delfin) Rueda, vice-chair

J.W. (Hans) Schoen

Confirmed and adopted by the General Meeting, dated 23 May 2022.

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 annual accounts 2021 included in the annual report

Our opinion

In our opinion the accompanying 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 2021 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 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2021 annual accounts of NN Leven based in Rotterdam, as set out on pages 12 and 109 of the annual report.

The annual accounts comprise:

1 the consolidated and company balance sheet as at 31 December 2021;

2 the following consolidated and company statements for 2021: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of NN Leven in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit procedures were determined in the context of our audit of the annual accounts as a whole. Our observations in respect of going concern, fraud and non-compliance with laws and regulations, climate and the key audit matters should be viewed in that context and not as separate opinions or conclusions.

Independent auditor's report continued

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

Audit approach

Summary

Materiality
— Materiality of EUR 105 million, this is in line with 2020 — Based on core equity; shareholders 'equity minus revaluation reserves (1%)

Group audit
— 97% of core equity — 100% of total assets — 98% of profit before tax

Going concern
— Going concern: no significant going concern risks identified

Fraud/Noclar
— Fraud & non-compliance with laws and regulations (Noclar): we identified management override of controls as presumed fraud risk

Key audit matters
— Valuation of insurance contract liabilities and reserve adequacy test (RAT) — Valuation of illiquid investments — Unit-linked exposure — Solvency II disclosure

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 105 million (2020: EUR 105 million).

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The materiality is determined with reference to core equity (shareholders' equity minus revaluation reserves) and amounts to 1% (2020: 1%). We continue to consider core equity as the most appropriate benchmark based on our assessment of the general information needs of the users of the annual accounts of the financial institutions predominantly active in the life insurance business. We believe that core equity is a relevant metric for assessment of the financial performance of the NN Leven.

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

We agreed with the Supervisory Board that misstatements identified during our audit in excess of EUR 5 million (2020: EUR 5 million) 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 N.V. ('NN Group') and is by itself a group company of several subsidiaries, which are mainly related to asset management activities (as set out in note 39). The financial information of the subsidiaries is included in the consolidated annual accounts of NN Leven.

Because we are ultimately responsible for the audit opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities.

In our risk assessment and related scoping, we took into account potential effects of COVID-19 and re-evaluated these during the process.

Our group audit mainly focused on significant components. These significant components are either individually financially significant due to their relative size within the Group or because we assigned a significant risk of material misstatement to one or more account balances of the component. In addition, we included certain components in the scope of our group audit in order to arrive at a sufficient coverage for all relevant significant account balances.

This resulted in a full or specific scope audit for 10 (2020: 8) components, resulting in a coverage of 97% of core equity, 100% of total assets and 98% of profit before tax. For the remaining 3% of core equity and 2% of profit before tax, procedures were performed at the group level including analytical procedures in order to corroborate that our scoping remained appropriate throughout the audit.

We sent audit instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. All components in scope for group reporting purposes are audited by KPMG member firms.

A specific point of attention as a result of COVID-19 was the virtual way of working, and in particular the impact thereof on the audit procedures and the reliability of the audit evidence obtained. For the largest part of 2021, NN Leven employees were working from home. We performed the audit of NN Leven also largely working from home.

Independent auditor's report continued

In view of the COVID-19 related restrictions on the movement of people across borders, we considered changes to the planned audit approach to evaluate the component auditors' communications and the adequacy of their work. For all components in the scope of the group audit we held video and conference calls. During these calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any additional work deemed necessary by the group audit team was then performed. In addition, we requested component auditors selected for file review to provide us with remote access to their audit workpapers and subsequently performed the file reviews.

The group audit team has set component materiality levels, which ranged from EUR 15 million to EUR 100 million, based on the mix of size and risk profile of the components within the Group.

The audit of some of the 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 the assistance of the NN Group Audit team include, but are not limited to, group finance, staff expenses in the Netherlands, other operating expenses in the Netherlands, certain elements of the risk and capital management disclosures, corporate income tax for the Dutch fiscal unity and legal proceedings.

By performing the procedures mentioned above at components, 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.

Audit response to going concern – no significant going concern risks identified

The Management Board has performed its going concern assessment and has not identified any significant going concern risks. Our main procedures to assess the Management Board's assessment were:

- we considered whether the Management Board's assessment of the going concern risks included all relevant information of which we are aware as a result of our audit;
- we assessed whether the scenarios included in the Own Risk Solvency Assessment (ORSA) and Preparatory Crisis Plan that were submitted to De Nederlandsche Bank N.V. (the Dutch Central Bank, DNB) and other regulatory correspondence indicate a significant going concern risk; and
- we considered whether the outcome of our audit procedures on the Solvency II capital position and disclosures (see: Key Audit Matters) indicate a significant going concern risk.

The outcome of our risk assessment procedures, including our consideration of findings from our audit procedures on other areas, did not give reason to perform additional audit procedures.

Audit response to the risk of fraud and non-compliance with laws and regulations

In note 44 of the annual report, the Management Board describes its response and procedures in respect of the risk of fraud and non-compliance with laws and regulations.

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As part of our audit, we have gained insights into NN Leven and its business environment, and assessed the design and implementation and, where considered appropriate, tested the operating effectiveness of the NN Leven's risk management in relation to fraud and non-compliance. Our procedures included, among other things, assessing the NN Group code of conduct, whistleblowing procedures, incidents register and its procedures to investigate indications of possible fraud and non-compliance. Furthermore, we performed relevant inquiries with management, Supervisory Board and other relevant functions, such as Internal Audit, Legal Counsel, Compliance and the Actuarial Function Holder. As part of our audit procedures, we:

- assessed the fraud risk assessments performed by operational risk management;
- assessed other positions held by the Management Board members and paid special attention to procedures and governance and compliance in view of possible conflicts of interest;
- evaluated internal compliance reports on indications of possible fraud and non-compliance;
- inspected correspondence with De Nederlandsche Bank (DNB), Autoriteit Financiële Markten (AFM) and other regulators and supervisory authorities; and
- evaluated legal confirmation letters.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to NN Leven.

NN Leven is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures in the annual accounts, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

- Wet op het financieel toezicht (Wft) (including the European Solvency II directives);
- Financial and economic crime (FEC) related regulation.

We evaluated with support of our forensics specialists, the fraud and non-compliance risk factors to consider whether those factors indicate a risk of material misstatement in the annual accounts.

Based on the above and on the auditing standards, we identified the following fraud risk that is relevant to our audit, including the relevant presumed risks laid down in the auditing standards, and responded as follows:

Management override of controls (a presumed risk)

Risk:

- Management is in a unique position to manipulate accounting records and prepare fraudulent annual accounts by overriding controls that otherwise appear to be operating effectively such as: estimates related to valuation and reserve adequacy of insurance liabilities and Solvency II disclosures.

Responses:

- We evaluated the design and the implementation of internal controls that mitigate fraud and non-compliance risks, such as processes related to journal entries and estimates.

KPMG

- We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by NN Leven, including retrospective reviews of prior year's estimates.
- Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.
- We incorporated elements of unpredictability in our audit, e.g. data-analysis on outgoing payments and performed risk-based specific item testing.
- We performed detailed testing on other emoluments in relation to the Management Board remuneration.
- Considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures;

We refer to the key audit matters 1, 2 and 4 that provide information of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

We assessed the presumed fraud risk on revenue recognition as irrelevant, as we consider the likelihood remote that a material error results from fraud other than originating from management override of controls, which is covered by the risk described above.

We communicated our risk assessment, audit responses and results to the Management Board and the Supervisory Board. Our audit procedures did not reveal indications and/or reasonable suspicion of fraud and non-compliance that are considered material for our audit.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Management 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.

The COVID-19 pandemic has had both operational and financial impact on NN Leven. We refer to note 2 of the annual accounts. As described under scoping of the group audit it also impacted our way of working with the component auditors. COVID-19 is also reflected in our key audit matters. For the valuation of non-listed investments, the reserve adequacy of insurance liabilities and Solvency II we assessed the impact of COVID-19 on management's accounting estimates.

Independent auditor's report continued

1. Valuation and reserve adequacy of insurance liabilities

Description

Insurance and investment contract liabilities (in short; insurance liabilities) amount to EUR 115 billion as at 31 December 2021, or 90%of total liabilities. The valuation of insurance liabilities involves management judgement, especially for determining the ultimate settlement value of long-term liabilities. In addition, NN Leven performs the so-called Reserve Adequacy Test (RAT) to assess the adequacy of the insurance liabilities, before reinsurance and net of deferred acquisition cost, based on current best estimate actuarial assumptions. The RAT of NN Leven requires significant management judgement in setting the assumptions related to longevity, expense projections, fair value of mortgages and reinvestment rates.

Given the financial significance and the level of judgement required we considered the valuation and reserve adequacy of insurance contract liabilities a key audit matter.

Our response

Our audit approach is a mixture of controls testing and substantive audit procedures.

Our procedures over internal controls focused on testing of controls around the adequacy of policyholder data, assumption setting and internal review procedures performed on the RAT by the Actuarial Function Holder. We also assessed the process for the internal validation and implementation of the models used for the valuation of the insurance liabilities and the RAT.

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

— we assessed the appropriateness of assumptions used in the valuation of the insurance liabilities and as applied in the RAT) by reference to company and industry data, COVID related uncertainties and expectations of future investment returns, future longevity and expense developments;

— we performed substantive analysis of developments in actuarial results and movements in reserve adequacy during the year and made corroborative inquiries with management and the Actuarial Function Holder; and

— we assessed the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2021.

Our observation

The valuation and reserve adequacy test shows a positive margin and we consider the valuation of the insurance contract liabilities to be appropriate. We refer to notes 11 and 16 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.

As and when these available for sale investments are sold, the excess in reserve adequacy would decrease accordingly and the realised capital gains would only be partly available to shareholders, since a significant portion of the gains would be required to strengthen the insurance contract liabilities in order to remain adequate. We refer to Note 1 of the annual accounts.

2. Valuation of illiquid investments

Description

For non-listed investments quoted prices are not available and fair values are based on valuation techniques which often involve the exercise of judgement by management and the use of assumptions, estimates and valuation models. Where significant pricing inputs are unobservable, management has no reliable, relevant market data available in determining the fair value for both measurement as well as for disclosure purposes. For these illiquid investments estimation uncertainty can be high, especially since the outbreak of COVID-19 with increased market volatilities. This is mainly applicable to:

- mortgages;
- real estate investments; and
- private equity and private debt investments.

Given the financial significance and estimation uncertainties we considered the valuation of non-listed investments a key audit matter.

Our response

We assessed management's approach to the valuation for non-listed investments and performed the following procedures:

- we evaluated NN Leven's processes and controls governing the valuation of non-listed investments;
- we inspected the supporting valuation documents prepared by management's internal and external valuation experts;
- KPMG valuation specialists assisted us in challenging the appropriateness of the models and methodologies used by management in calculating fair values of mortgages. We tested the source data used and assessed the appropriateness of critical valuation parameters. Our valuation specialists independently calculated whether the fair value for the mortgage portfolio as a whole as determined by management is within the acceptable fair value range;
- we involved our real estate valuation specialists in the substantive audit procedures of selected high-risk real estate investments We evaluated the objectivity, independence and professional competence of external valuators engaged by management. We inspected the valuation reports obtained, tested the source data used and the calculations made and challenged significant assumptions such as the gross initial yield/discount rate and estimated rental values.

We assessed the assumptions used against available market data and object specific underlying characteristics such as rent collections, occupancy rates and contract renewals;

- we tested and challenged management's valuation of private equity and private debt investments by critically reviewing the minutes of the meetings of management with the external fund managers, we tested the timeliness of such meetings and performed back testing procedures to determine the reliability of the fair value estimates provided by the external fund managers. We compared the movements in the valuations for the period with available external market data and performed back testing on the prior year estimates, e.g. by reconciliation of valuations to annual accounts of investments or comparison to sales results; and
- we assessed the disclosures in the annual accounts.

Our observation

The results of our testing were satisfactory and we considered the fair value of non-listed investments to be appropriate. We observed that in the course of 2021 valuation uncertainties in real estate decreased for all sectors excluding retail, where, although valuations stabilised, a limited number of transactions took place to support the estimated yield levels. As at year-end the valuation reports of external valuators do not contain material valuation uncertainty clauses anymore. We also refer to note 2 and 30 of the annual accounts in which the real estate valuation uncertainties that exist at 31 December 2021 are disclosed.

3. 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 for NN Leven as and when compensation would be required. The Management Board 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 measured, estimated and/or quantified at this point.

Due to the potential significance and judgement that is required to assess the developments relevant to these claims and proceedings we considered this a key audit matter.

Our response

- We assessed NN Group's and NN Leven's processes and controls with respect to the unit-linked exposures;

- We inspected and assessed supporting legal documentation and discussed on a quarterly basis the evolving legal risks and proceedings with the legal counsel and its internal legal advisors. Our assessment took into account NN Leven's specific developments such as the Supreme Court's answers relating to collective proceedings initiated by the Vereniging Woekerpolis.nl against Nationale-Nederlanden as well as broader market developments, including the impact, if any, of verdicts issued up to the date of this audit opinion;
- We obtained lawyers letters of the external lawyers engaged by the group in relation to the collective cases Woekerpolis.nl, Consumentenbond and Wakkerpolis to support our assessment of management judgment on the accounting treatment and disclosures for related risks exposures. We assessed the professional competency and capability of these external lawyers;
- We assessed the unit-linked disclosure on contingent liabilities in note 38 Legal proceedings of the annual accounts.

Our observation

We concur with the Management Board's conclusion that the financial consequences of the unit-linked exposure cannot be reliably measured and that no provision can be recognised as at 31 December 2021. We consider the disclosure in Note 38 to be appropriate.

4. Solvency II disclosure

Description

Solvency II information as included in note 44 and 45 of the annual accounts is an important disclosure about the regulatory capital position of the NN Leven. The calculation of the Solvency II ratio is complex and requires significant management judgement. NN Leven applies the Partial Internal Model (PIM) as approved by DNB to calculate the Solvency Capital Requirement (SCR). Given the importance of the Solvency II capital position, the reporting complexities, the significance of management judgements and assumptions on the outcome of the ratio, the significant measurement uncertainties we identified the adequacy of the Solvency II disclosure as a key audit matter.

Our response

We obtained an understanding of the company's application and implementation of the Solvency II directive. With the assistance of our own actuarial specialists we performed the following audit procedures:

- we assessed the effectiveness of internal controls over the SCR calculations and NN Leven's modelling and assumption (change) approval processes;
- we assessed the follow up to the terms and conditions set by DNB in relation to the approval of the PIM-Major Model Changes;
- we tested controls over the calculations of the market value balance sheet, Own Funds and SCR for them to be prepared in accordance with the Solvency II directive and in accordance with the PIM as approved by DNB;

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- we assessed and challenged the rationale, implementation and impact of material changes to models and assumptions used to determine the value of best estimate insurance liabilities and SCR;
- we assessed the impact of the Q&A and good practice on the valuation of savings arrangements and the related disclosure in the annual accounts under Note 29;
- we assessed the appropriateness of economic and non-economic assumptions used for the calculations of the market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of management judgements made to current and emerging market practices;
- we assessed the adequacy of the quantitative and qualitative disclosures of the Solvency II Capital Requirements including disclosures about the interpretation of legislation and related uncertainties;
- we assessed the quality of the risk management function and actuarial function for their involvement with the Solvency II reporting. We made inquiries with the Actuarial Function Holder on the Actuarial Function Holder report 2021, which sets out conclusions on the reliability and adequacy of the technical provisions as at 31 December 2021 under Solvency II;
- we verified the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial specialists and alternative actuarial methods, if applicable;
- we assessed the supporting evidence for critical judgements applied in assumption setting by the NN Leven for both the best estimate liability and the SCR. This included the substantiation by management of the loss absorbing capacity of deferred taxes in accordance with the applicable legislation and regulations;
- we verified the correctness of the consolidation of the Solvency II reporting by the Group's components, taking into account the Solvency II requirements for consolidation that deviate from EU-IFRS; and
- we assessed and challenged the internally prepared analysis of the movements in the Solvency II capital position during the year and discussed the outcome with the actuaries and Actuarial Function.

Our observation

We considered the Solvency II disclosure in note 44 and 45 to be adequate.

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.

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

- is consistent with the annual accounts and does not contain material misstatements; and

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- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code report and other information.

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 Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the annual accounts.

The Management Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NN Leven, for the financial year audit as of the 2016 and have operated as statutory auditor ever since that financial year. We were reappointed by the General Meeting of Shareholders on 29 May 2019 to continue to serve NN Leven as its external auditor for the financial years 2020–2022.

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 Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error. In that respect the Management Board under supervision of the Supervisory Board is responsible for the prevention and detection of fraud and non-compliance with laws and regulations, including determining measures to resolve the consequences of it and to prevent recurrence.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the NN Leven's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate NN Leven. or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report continued

The Management Board should disclose events and circumstances that may cast significant doubt on the NN Leven's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing NN Leven's financial reporting process.

Our responsibilities for the audit of the 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the annual accounts is located at the website of de '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 auditor's report.

Amstelveen, 28 March 2022

KPMG Accountants N.V.

F.M. van den Wildenberg RA

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Appropriation of result and other information

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 13 'Equity' of the Consolidated annual accounts for the proposed appropriation of result.

Other information

NN Leven has a branch office (NN Životní pojišťovna N.V., pobočka pro Českou republiku) which is located in the Czech Republic.

Contact and legal information

Contact us

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Weena 505
3013 AL Rotterdam

PO Box 796, 3000 AT Rotterdam
The Netherlands
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Commercial register number 24042211

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

Disclaimer

Small differences are possible in the tables due to rounding. Certain of the statements in this 2021 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Leven's core markets, (2) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which NN Leven operates, on NN Leven's business and operations and on NN Leven's employees, customers and counterparties, (3) changes in performance of financial markets, including developing markets, (4) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations and the interpretation and application thereof, (14) changes in the policies and actions of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to NN Leven of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Leven's ability to achieve projected operational synergies, (19) catastrophes and terrorist-related events, (20) adverse developments in legal and other proceedings and (21) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Leven 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.