2017 Solvency and Financial Condition Report

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

nationale
nederlanden

Content Solvency II

Solvency and Financial Condition Report

Summary

Summary

NN Leven's approach to the Solvency and Financial Condition Report

This Solvency and Financial Condition Report ('SFCR') provides public quantitative and qualitative disclosures for Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven') on Solvency II as required by the Solvency II legislation. NN Leven already discloses most of the information that is required to be included in the SFCR in its 2017 Annual Report ('Annual Report'). In order to ensure the most transparent and user-friendly approach, the information that is already included in the Annual Report is not duplicated in this SFCR. Therefore, this SFCR is prepared as a supplement to NN Leven's Annual Report. It includes all information required to be disclosed in the SFCR, either through a specific reference to the Annual Report or as supplemental information.

As required by the Delegated Regulation (EU) 2015/35/Annex XX "Structure of the Solvency and Financial Condition Report and Regular Supervisory Report", this SFCR follows the required standard chapter layout. The subjects addressed are based on Directive 2009/138/EC/ and (amended) Directive 2014/51/EU section 3 – Public Disclosures (articles 51-56), Delegated Regulation (EU) 2015/35 and (amended) Delegated Regulation (EU) 2016/467 chapter XII Public Disclosures (articles 292-298). Furthermore, the figures presented in this report are in line with the supervisor's reported Quantitative Reporting Templates ('QRTs').

NN Leven is required to submit the so-called Quantitative Reporting Templates to its supervisor Dutch Central Bank ('DNB'). A subset of these QRTs, which are required to be publicly disclosed and which provide quantitative information in accordance with Solvency II as at 31 December 2017, are included in the appendix to this SFCR.

The amounts disclosed in this SFCR are consistent with the amounts in the Annual Report, in thousands of euros unless stated otherwise. To comply with the Solvency II legislation, the amounts in the QRTs are in thousands of euros.

The Solvency ratio, as well as the amounts disclosed in this SFCR are not final until filed with the regulators.

Chapter A 'Business and performance' describes the overall business profile and structure of NN Leven. It also provides insight into the underwriting and investment performance of NN Leven. Chapter B 'Governance system' explains the organisational governance structure and looks into the role and execution of key Solvency II functions. Chapter C 'Risk profile' analyses NN Leven's exposure to financial and non-financial risks and explains the risk mitigation techniques in place. Chapter D 'Valuation for group solvency purposes' elaborates on the differences in presentation and measurement of balance sheet elements between Solvency II and International Financial Reporting Standards ('IFRS'). Chapter E 'Capital management' discusses the composition of available and Eligible Own Funds and the calculation of the Solvency Capital Requirement ('SCR').

Material changes in 2017

NN Leven is part of NN Group N.V. ('NN Group'). In 2017, NN Group acquired all issued and outstanding ordinary shares in the capital of Delta Lloyd N.V. ('Delta Lloyd'). The legal merger between NN Group Bidco B.V. (a 100% subsidiary of NN Group N.V.) and Delta Lloyd became effective on 1 June 2017. Following the acquisition, NN Group started to combine Delta Lloyd with the Dutch and Belgian activities of NN Group.

Eligible Own Funds

Solvency II requires to hold Eligible Own Funds for covering Solvency Capital Requirement. The Eligible Own Funds are classified in three tiering categories. The tiering classification is prescribed in the Solvency II Legislation, as not all own-fund items are considered to be able to fully absorb losses in the event of winding-up proceedings. Tier 1 own-fund items are the highest grade capital and Tier 3 items are the lowest grade capital.

Eligible Own Funds

In EUR thousand	2017	2016
Tier 1 (restricted and unrestricted)	6,464,592	6,393,197
Tier 2	674,315	685,832
Tier 3	530,942	565,650
Total Eligible Own Funds	**7,669,849**	**7,644,679**

Eligible Own Funds increased by EUR 25 million from EUR 7,645 million at 31 December 2016 to EUR 7,670 million at 31 December 2017. The increase reflects operating capital generation and positive market impacts offset by dividend payments to the parent company.

Impact of long term guarantees and transitional measures

The quantification of the impact of a change to zero of the volatility adjustment on NN Leven's financial position – represented by an adjustment on the amount of technical provisions, the SCR, the basic own funds and the Eligible Own Funds is included paragraph 'Matching and volatility adjustment, transitional measures and transitional risk-free interest rate term structure' on pages 20-21 in Section D.2 and QRT S.22.01.21 'Impact of long term guarantees and transitional measures' in the Appendix.

Summary continued

Solvency Capital Requirement

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

Solvency Capital Requirement

In EUR thousand	2017	2016
Market Risk	2,718,024	2,993,637
Non-market risk	3,097,455	3,244,081
Diversification	-1,453,698	-1,616,382
Partial Internal Model BSCR	**4,361,781**	**4,621,336**
Operational Risk	325,154	328,601
Capital add-on	-6,600	-
Loss-Absorbing Capacity of Technical Provisions	-91,516	-50,219
Loss-Absorbing Capacity of Deferred Taxes	-1,049,207	-1,128,718
Total Solvency Capital Requirement	**3,539,612**	**3,771,000**

NN Leven's Solvency II Capital ratio

The following table presents the solvency ratio of NN Leven at year-end 2017 (and reported at year-end 2016).

Solvency ratio

In EUR thousand	2017	2016
Eligible Own Funds (EOF)	7,669,849	7,644,679
Minimum Capital Requirement (MCR)	1,592,825	1,696,950
Solvency Capital Requirement (SCR)	3,539,612	3,771,000
Surplus	**4,130,237**	**3,873,680**
Ratio (%) (EOF/SCR)	**217%**	**203%**

NN Leven was adequately capitalised at year-end 2017 with a Solvency II ratio of 217%. The Solvency II ratio of NN Leven increased from 203% to 217%.

Business and performance

A. Business and performance

Introduction

This chapter of the SFCR contains general information on NN Leven, a simplified group structure and NN Leven's financial performance over 2017.

A.1 Business

General

Reference is made to the section 'NN Group and NN Leven at a Glance' in the 2017 Annual Report of NN Leven for the legal form of NN Leven and NN Leven's position within the legal structure of NN Group.

The supervisory authority responsible for financial supervision of NN Leven:

Dutch Central Bank
Westeinde 1
1017 ZN Amsterdam
The Netherlands

The contact details of NN Leven's external auditor are:

Dhr. W. (Wim) Teeuwissen RA
KPMG Accountants N.V.
Papendorpseweg 83
3528 BJ Utrecht
The Netherlands

Information on the appointment of the external auditor is included in the section 'Corporate governance- External auditor' in the 2017 Annual Report of NN Leven.

Qualifying holdings

A 'qualifying' holding is a direct or indirect holding in NN Leven which represents 10 % or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.

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

As at 31 December 2017, there were no holders of qualifying holdings in NN Group.

Material lines of business and related undertakings

Reference is made to section 'NN Group and NN Leven at a Glance- NN Leven' and section 'Report of the Management Board' in the 2017 Annual report of NN Leven for more information on the material lines of business of NN Leven.

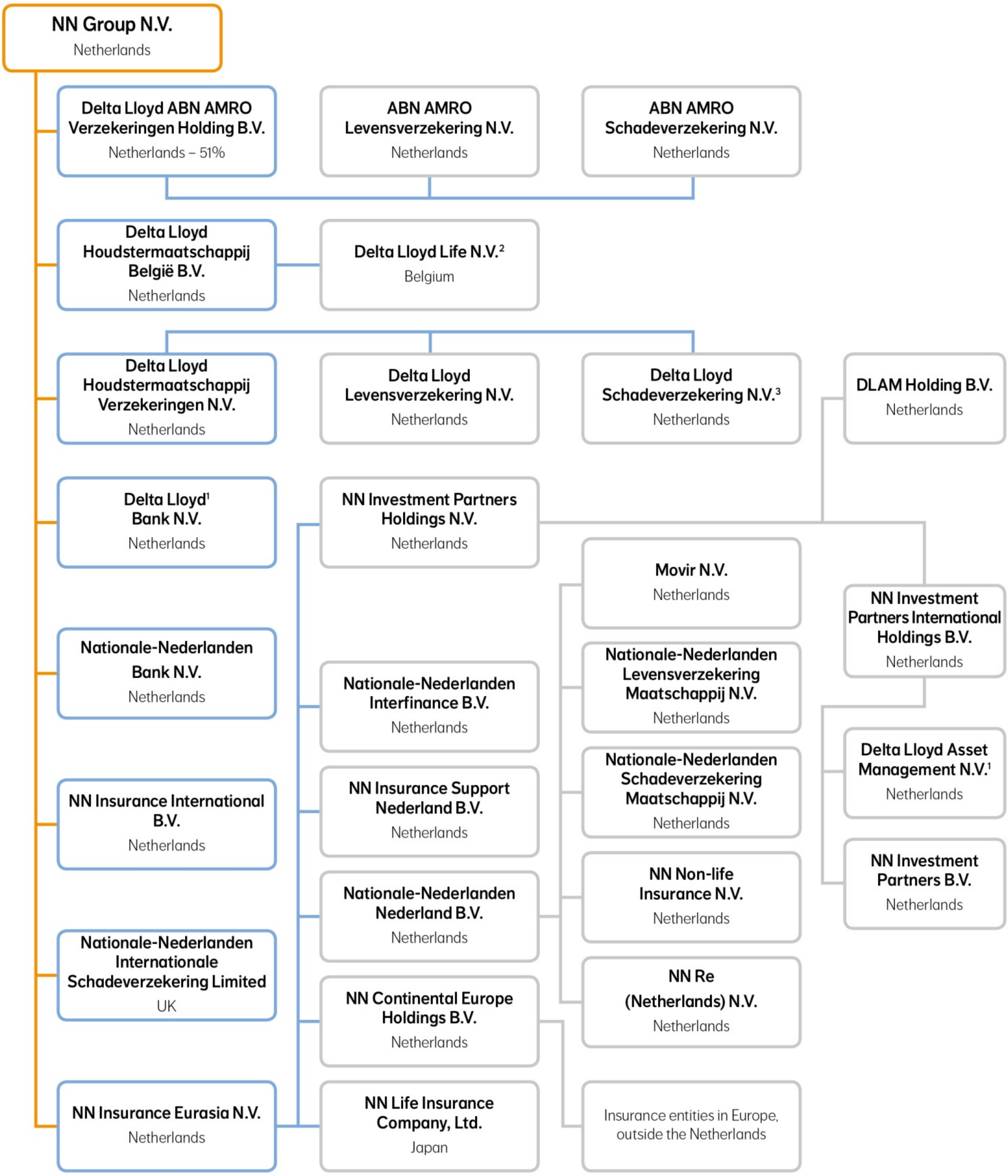
For information on any significant business events or other events that have occurred over the reporting period reference is made to section 'Report of the Management Board- Financial developments' in the 2017 Annual Report of NN Leven and note 40 'Other events' in the 2017 Consolidated annual accounts of NN Leven.

Reference is made to Note '36 Principal subsidiaries' in the 2017 Consolidated annual accounts of NN Leven for a list of material related undertakings and a description of the legal structure of NN Leven. Reference is made to the section 'Corporate governance' of the 2017 Annual Report of NN Leven for information on the governance and organisational structure of NN Leven.

Business and performance continued

Simplified group structure

The simplified group structure as at 31 December 2017 is as follows:



1 As of 1 January 2018 Delta Lloyd Bank N.V. and Delta Lloyd Asset Management N.V. are merged into NN Bank N.V. and NN Investment Partners B.V. respectively.
2 As of 1 February 2018 Delta Lloyd Life N.V. (Belgium) has been transferred to NN Continental Europe Holdings B.V.
3 As of 1 March 2018, Delta Lloyd Schadeverzekering N.V. is transferred to Nationale-Nederlanden Nederland B.V.

Business and performance continued

A.2 Underwriting Performance (see A.3 below)

A.3 Investment Performance

NN Leven's operating result is analysed through a margin analysis, which includes the investment margin (investment performance), fees and premium-based revenues and the technical margin (underwriting performance). For information on underwriting and investment performance per material line of business, reference is made to the section 'Report of the Management Board- Financial development' in the 2017 Annual Report of NN Leven. For the underwriting performance, reference is made to QRT S.05.01.02 'Premiums, claims and expenses by line of business' and QRT S.05.02.01 'Premiums, claims and expenses by country' in the Appendix.

Further reference is made to Note 18 'Investment income' in the 2017 Consolidated annual accounts of NN Leven for information on income and expenses arising from investments by asset class and the components of such income and expenses.

Gains and losses on investments recognised directly in equity are disclosed in Note 11 'Equity'- revaluation reserve and in the Consolidated statement of comprehensive income in the 2017 Consolidated annual accounts of NN Leven.

Information on investment in securitisations is included in Note 37 'Structured entities' in the 2017 Consolidated annual accounts of NN Leven. Most of the investments in securitisations issued by third parties relate to debt instruments of structured entities regarding asset-backed securities, classified as loans. Further reference is made to Note 4 'Available-for-sale investments' in the2017 Consolidated annual accounts of NN Leven for more information on these investments in structured entities.

A.4 Performance of other activities

Other material income and expenses incurred over 2017 are disclosed in notes 17-24 in the 2017 Consolidated annual accounts of NN Leven and the section 'Report of the Management Board- Financial development' in the 2017 Annual Report of NN Leven. Leasing arrangements are included in Note 24 'Other operating expenses' and future rental commitments are disclosed in Note 34 'Contingent liabilities and commitments' in the 2017 Consolidated annual accounts of NN Leven.

A.5 Any other information

Reference is made to section 'Report of the Management Board- Financial development' in the 2017 Annual Report of NN Leven.

System of governance

B. System of governance

Introduction

This chapter of the SFCR contains information on the system of governance of NN Leven in addition to governance information included in the 2017 Annual Report of NN Leven. The additional information includes relevant committees within the Management Board (hereafter 'MB'), a description of the main roles and responsibilities of key functions and NN Leven's approach to the 'fit and proper' requirements and to the Own Risk and Solvency Assessment.

B.1 General information on the system of governance

This chapter describes the Risk and Finance Committee Structure and explains the responsibilities, members and interdependencies of each committee.

Over the course of 2017, NN Group reviewed its system of governance and considered improvements to its control framework. As a result, an updated system of governance was put in place as of January 2017. Framework improvements were implemented over the course of 2017. As the system of governance of NN Group also applies for NN Leven, these changes in the NN Group control framework are also applicable to NN Leven.

This chapter sets out the governance and control framework effective in 2017.

Structure of governance and changes in system of governance

For a description of the structure of NN Group's administrative, management and supervisory body, reference is made to the Corporate Governance section and the Report of the Supervisory Board, both included in the NN Group 2017 Financial Report and to the NN Group website: https://www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance.htm. These sources also describe the main roles and responsibilities of these bodies, provide a brief description of the segregation of responsibilities within these bodies and describe relevant committees that exist within them.

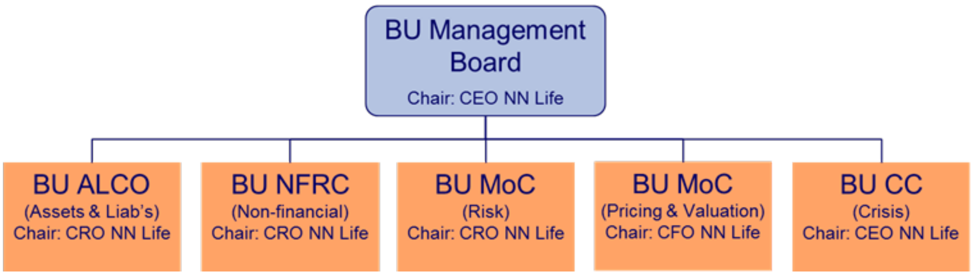
During 2017, NN Leven splitted the Model Committee into two Model Committees, one for Pricing & Valuation models and one for Risk models. Next to that no material changes in the system of governance were made.

Management Board committees

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

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

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



Reference is also made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

Authority, resources and operational independence of key functions

The key functions are positioned independently from the business (2nd line). These functions have, including but not limited to, strong hiring, career development and succession planning, appraisal as well as termination of employment rights to ensure adequate resources, and to allow them to act independently and with authority.

System of governance continued

The sections below further describe how the key functions have the necessary authority, resources and operational independence to carry out their tasks and how they report to and advise the MB of NN Leven.

Roles and responsibilities of key functions

NN Leven has organised its Solvency II key functions (Risk Management, Internal Audit, Compliance and Actuarial Function) in accordance with the applicable Solvency II regulations. All key function holders within NN Leven have passed DNB fit and proper test. The Solvency II key functions are able to carry out their duties objectively and free from undue influence and can report relevant findings directly to the Board.

For further details regarding the Solvency II key functions reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

Reference is made Note 22 'Staff expenses' as disclosed in the 2017 Consolidated annual accounts of NN Leven for information on the remuneration policy and practices regarding administrative, management and supervisory bodies and employees.

Transactions with related parties

Reference is made to Note 38 'Related parties' and Note 39 'Key management personnel compensation' in the 2017 Consolidated annual accounts of NN Leven for information about material transactions during the reporting period. Section B.7 in this SFCR contains more information on intra-group outsourcing arrangements. Transactions with people who exercise a significant influence on NN Leven and with members of the Management Board and Supervisory Board are disclosed in Note 39 'Key management personnel compensation' in the 2017 Consolidated annual accounts of NN Leven.

Adequacy of system of governance

The assessment of the adequacy of the system of governance of NN Leven to the nature, scale and complexity of the risks inherent to its business is disclosed in Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

Consistent use of risk management, internal control systems and reporting procedures

Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for a description of how the risk management and internal control systems and reporting procedures are implemented consistently throughout NN Leven.

B.2 Fit and proper requirements

For a description of NN Leven's specific requirements concerning skills, knowledge and expertise applicable to the persons who manage NN Leven, reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven. Requirements concerning skills, knowledge and expertise applicable to people who have other key functions, are included in the respective job profiles.

In accordance with the NN Group Governance Manual and applicable HR policies, the persons who effectively run NN Leven and the persons fulfilling key functions should be fit and proper. During recruitment all candidates must have the professional qualifications, knowledge and experience that are required for sound and prudent management ('fit') and be of good repute and have integrity ('proper'). Where applicable the candidates must pass the DNB or AFM fit and proper test.

All persons holding key functions are assessed against their performance objectives, leadership behaviours and any other requirements from their job profiles during the annual performance cycle and specifically during the year-end appraisal.

B.3 Risk management system including the own risk and solvency assessment

Description of NN Leven 's risk management system

Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for a description of the risk management system comprising of strategies, processes and reporting procedures, and how NN Leven is able to effectively identify, measure, monitor, manage, and report, on a continuous basis, the risks on an individual and aggregated level, to which NN Leven is or could be exposed. In the same note, a description is included of how the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making process of NN Leven.

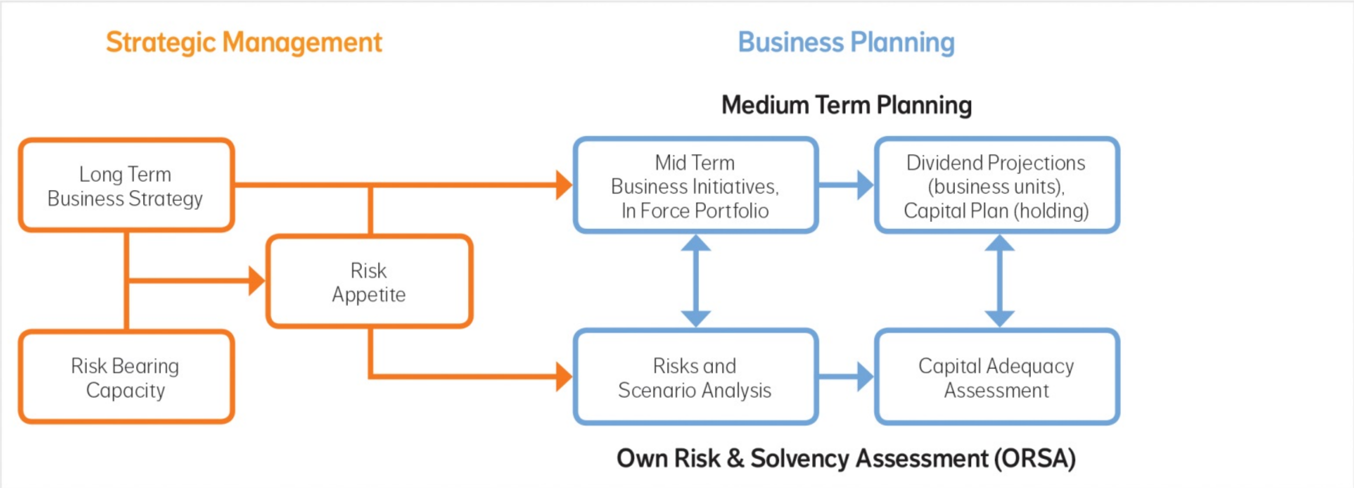
Own Risk and Solvency Assessment

Business strategy and objectives, key risk appetite statements, risk and capital management are aligned in the Own risk and Solvency Assessment ('ORSA') in synchronisation with the yearly medium-term business plan. The ORSA report supports the MB in assessing the overall risk and capital profile of the business under a wide range of scenarios.

The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks an insurance legal entity as NN Leven faces or may face and to determine the own funds necessary to ensure that the entity's overall solvency needs are met at all times. In particular, the ORSA:

System of governance continued

- Is a specific instrument within NN Leven's risk management system: it is a high level forward looking analysis on capital adequacy under a wide range of scenarios based on the current and emerging risk profile of an entity, given its strategy and risk appetite
- Does not serve to calculate the capital requirement, although capital add-ons can be considered as a result of the ORSA
- Shall be an integral part of business planning. As such, the ORSA is linked to the strategic management process and related decision-making framework as illustrated below:



Regular frequency
NN Leven prepares an ORSA at least once a year. In the ORSA, NN Leven articulates its strategy and risk appetite; describes its key risks and how they are managed; analyses whether or not its risks and capital are appropriately modelled; and evaluates how susceptible the capital position is to shocks through stress testing and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Leven. Stress testing can also be initiated outside ORSA, either internally or by external parties such as DNB and the European Insurance and Occupational Pensions Authority ('EIOPA'). The ORSA includes a forward looking overall assessment of NN Leven's solvency position in light of the risks it holds.

Monitoring between regular ORSAs: possible ad-hoc ORSA
To the extent necessary, the outcomes of the ORSA are translated in ad-hoc ORSA triggers (i.e. events that lead to a significant shock in the risk profile and/or capital position), relevant metrics and/or indicators and management actions for identified material risks. Monitoring of the same is part of the regular (Finance & Risk) control cycle. Developments are documented in internal Finance & Risk reports and discussed during board and/or delegated committee meetings. The CRO within NN Leven is responsible for identifying the need of a (partial) ad-hoc ORSA. Head Office will be informed as soon as possible when the decision for a(n) (partial) ad-hoc ORSA is made. In such cases, DNB is also informed.

The regular ORSA process as undertaken within NN Leven

Strategy and risk appetite
A thorough assessment of strategy is done once a year or when material developments in the (external or internal) environment give rise to an earlier re-assessment. Yearly assessments are made in the first half of the year whether to adjust the strategy for developments in the past year and/or revised assumptions on the future. Setting (and adjusting) the risk appetite is inextricably part of strategy setting (and adjusting).

Risk Assessment
Key to the ORSA is the identification of potentially solvency threatening risks, given the strategy and risk appetite. Basis for this risk assessment is NN Leven's risk taxonomy. Modelled risks are subject to an appropriateness test (see below) and additional statistical stress testing (see below), both contributing to adequate capitalisation of these risks. Focus is therefore on non-modelled risks.

Appropriateness test of regulatory capital calculation
The assumptions and models for calculating regulatory solvency requirements are assessed against the actual risk profile. Differences are analysed in terms of future model improvements and/or non-modelled risks. The outcome of the analysis may lead to mitigating actions to overcome model shortcomings. If the deviations or uncertainties are considered material, quantification of the deviation is necessary in order to consider a (temporary) self-imposed capital add-on.

Capital and capital projections
The recognition and valuation bases for internal capital projections are the same as those used for regulatory solvency reporting and are consistent with the best-estimate assumptions and parameters used for the Business Plan best estimate financial forecasts, among others

System of governance continued

the yearly updated Macro Economic Scenario. Expected regulatory developments (like a decrease in Ultimate Forward Rate level) are included in the Capital projections.

The Actuarial Function Holder is to confirm that the base-case and projected technical provisions represent a true and fair view of future liabilities. The Actuarial Function Holder also provides input concerning the risks arising from the calculation of technical provisions.

Regulatory solvency is at the heart of the ORSA: NN Leven must ensure that it is able to meet the regulatory required solvency ratio at all times. In addition, NN Leven assesses:

- The quantity and quality of Own Funds over the Business Plan period;
- The composition of Own Funds across tiers and how this composition may change as a result of redemption, repayment and maturity dates during the Business Plan period.

Stress testing and overall assessment of capital adequacy

Based on the Business Plan and the outcomes of the ORSA risk assessment, (reverse) stress scenarios and their parameters are developed and documented. The MB is responsible for identifying the key uncertainties and the related scenarios.

Scenario testing, as well as (reverse) stress testing is required for each ORSA. When the outcomes of performed stress tests show solvency ratios dropping below 100%, realistic strategies for recovering the solvency ratio will be considered and documented in the ORSA report. One of the management actions is a capital downstream to restore solvency ratio.

Ultimately, after the assessments and considerations (including formulated management actions) the ORSA is to conclude whether, going forward, NN Leven is adequately capitalised under a wide range of scenarios over the planning horizon.

Governance of NN Leven's Partial Internal Model

For the model governance and validation process, reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

The model governance and validation function aims to ensure that NN Leven's models are fit for their intended purpose. Models and their disclosed metrics are approved by the Model Committee. The findings of the model validation function are also regularly reported to the Model Committee. This committee is responsible for modelling policies, processes, methodologies and parameters which are applied within NN Leven. Furthermore, the model validation function carries out validations of risk and valuation models particular those related to Solvency II.

B.4 The Internal control system

Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for a description of the implementation of the Internal control system.

B.5 Internal audit function

Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for a description of the implementation of the Internal control system, compliance, internal audit and actuarial function.

B.6 Actuarial function

Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for a description of the implementation of the Internal control system, compliance, internal audit and actuarial function.

B.7 Outsourcing

NN Leven outsources part of its operational and IT processes to external service providers. 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. Related parties of NN Leven include, amongst others, its associates, share service centres, joint ventures, key management personnel and the defined benefit and contribution plans.

NN Leven has internal policies ensuring that a formal written agreement is in place with the service provider, covering the relevant business and financial risks. NN Leven has an identified number of improvement actions which are closely monitored by the management of NN Leven to ensure maintaining adequate control over outsourcing activities. Next to that no possible significant provisions for doubtful debts or individually significant bad debt expenses may be missing on outstanding balances with related parties during the integration with Delta Lloyd Leven.

B.8 Any other information

Reference is made to the section 'Corporate Governance' in the 2017 Annual report of NN Leven and the NN Group website: https://www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance for other material information regarding the system of governance of NN Leven and NN Group.

Risk profile

C. Risk Profile

Introduction
This chapter of the SFCR contains information on the risk profile of NN Leven and information on the 'prudent person principle' used when investing.

Risk profile per risk category
Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for quantitative and qualitative information on the risk profile per risk category. The following risk categories have been disclosed:

C.1 Non-market risk (Underwriting risk)
Non-market risk is disclosed as insurance risk and business risk in Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

C.2 Market risk
Market risk is disclosed in Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

C.3 Counterparty Default risk (Credit risk)
Counterparty Default risk is disclosed in Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

C.4 Liquidity risk
Liquidity risk is disclosed in Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

C.5 Operational risk
Operational risk is disclosed in Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven.

C.6 Other material risks

Business conduct risk
Business conduct risk is the risks related to unethical or irresponsible corporate behavior, inappropriate employee behavior and customer suitability of products. For more details reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven .

Concentration risks
NN Leven does not have an appetite for risk concentration and manages concentration risk with a limit structure. During the year no limit breaches occurred. More information on the mitigation of several types of concentration risk is included in Note 41 'Risk Management' in the 2017 Consolidated annual accounts of NN Leven.

Investing assets in accordance with the 'Prudent person principle'

Acceptable investments
NN Leven complies with the prudent person principles as set out in Directive 2009/138/EC/article 132: Prudent person principle. NN Group maintains a Global Asset List, which contains all asset classes in which NN Group and its subsidiaries are allowed to invest. Before an asset class is approved for this list, a New Investment Class Approval & Review Procedure ('NICARP') must be followed.

The NICARP describes all relevant considerations on return, risk and operational consequences that are relevant to the decision whether a Business Unit of NN Group should invest in the proposed investment class.

The NICARP request does not describe a specific transaction, but is a proposal for the potential investment in an investment class.
The NICARP should nevertheless address the quantitative impact of potential future investments and include proposed portfolio limits for the product. This should always be in line with NN Group internal policies as well as external constraints (such as regulatory limits).

Governance of investments
Within the Three Lines-of-Defence model, investments are managed in the first line through a dedicated Central Investment Office, reporting directly to the CEO of NN Group. Within NN Leven the second line function Investment Risk Management reports to the Head of Risk management who then reports to the CRO of NN Leven. Investment office and the CRO meet regularly in the NN Leven Asset & Liability Management Committee (ALCO), and in the Group Risk & Finance Committee for the most material issues. Operational activities regarding investments are performed by NN Investment Partners, which also provides (unsollicited) advice on proposed or current investments.
All investment related activities are performed within the boundaries as set by NN Group Policies. These include among others the following:

Risk profile continued

- Asset-Liability Management Policy
- Asset Class Standard (NICARP)
- Investment Management Policy
- Concentration Risk Standard
- Financial Regulations Standard
- Responsible Investment framework policy

Investment Office
Based on market views, NN Leven requirements and input from its assets managers, the Investment Office which is headed by the Chief Investment Officer, will:

- Propose Investment Strategies for NN Leven
- Prepare proposals for mandates and for delegated approval levels for the Asset Managers
- Prepare Performance Measurement Guidelines of all investment decisions taken under the delegated approval authorities

NN Investment Partners will prepare a market view, propose investment ideas based on market developments and NN Leven requirements and decides on investment decisions within allocated limits/thresholds. NN Investment Partners executes the Performance Measurement Guidelines as prepared by the Investment Office.

Asset & Liability Management Committee
The main responsibility of the ALCO is the oversight of risks related to the matching of assets and liabilities (Asset & Liability Management) and the consequences for the balance sheets and P&L of NN Leven.. It includes risks related to the prevailing market circumstances and the ALCO discusses possible adverse consequences. The ALCO also monitors and advises on insurance and business risks that can impact the balance sheet or P&L. The ALCO operates within the delegated authority of the NN Leven Board.

NN Leven ALCO monitors investment performance and decides on investment strategy, investment mandates as well as investment proposals within risk limits as set by the ALCO at NN Group:

- Investment strategy: the NN Leven ALCO decides on its investment strategy by taking the approved NN Group investment strategy into consideration.
- Investment mandates: the NN Leven ALCO decides on the investment mandates with its selected Asset Managers, taking the GIC recommendations into consideration. This includes deciding on the approval authority delegated by the NN Leven ALCO to the GIC regarding allocation of asset classes within bandwidths as determined by NN Leven SAA, and to the Asset Managers.
- Investment proposals: the NN Leven ALCO will decide on investment proposals where there is no approval authority delegated by the NN Leven ALCO.

Sensitivity analysis
Reference is made to Note 41 'Risk Management' in the 2017 Consolidated annual accounts of NN Leven for a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

Risk exposure from off-balance sheet positions and transfer of risk to special purpose vehicles
Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven regarding the risk exposure of NN Leven, including the exposure arising from off-balance sheet positions and describing the measures used to assess these risks. As at 31 December 2017, no material risks were transferred to special purpose vehicles outside NN Group.

C.7 Any other information relevant to the risk profile of NN Leven
Techniques used for mitigation of risk
Reference is made to Note 41 'Risk management' in the 2017 Consolidated annual accounts of NN Leven for a description of the techniques used for mitigating risks and the processes for monitoring the continued effectiveness of these risk mitigation techniques.

Valuation for Solvency purposes

D. Valuation for Solvency purposes

Introduction

This chapter of the SFCR contains information on the valuation for solvency purposes of assets, insurance liabilities and other liabilities of NN Leven and explains the differences with their valuations in the in the 2017 Consolidated annual accounts of NN Leven.

Reconciliation IFRS Balance sheet to Solvency II Balance sheet

As at 31 December 2017. In EUR thousand	IFRS	Consolidation Scope	Presentation differences	Valuation differences	Solvency II
Assets					
Cash and cash equivalents	200,837	-159,395	-5,227	0	36,215
Financial assets at fair value through profit or loss and Available-for-sale investments	64,610,141	-1,138,906	757,323	0	64,228,558
Loans	19,596,214	200,349	95,846	1,644,196	21,536,605
Reinsurance contracts	1,151,150	0	0	-14,819	1,136,331
Associates and joint ventures	3,417,387	2,417,388	0	9,932	5,844,707
Real estate investments	2,226,793	-2,226,793	0	0	0
Property and equipment	22	-3	0	0	19
Intangible assets	7,175	0	0	-7,175	0
Deferred acquisition costs	236,637	0	0	-236,637	0
Deferred tax assets	0	0	1,007,760	6,033	1,013,793
Other assets	2,488,919	-150,848	-916,498	0	1,421,574
Total assets	**93,935,275**	**-1,058,207**	**939,205**	**1,401,531**	**95,217,804**
Equity					
Shareholders' equity (parent)	15,202,686	0	0	-8,155,312	7,047,374
Minority interests	665,424	-665,424	0	0	0
Undated subordinated notes	450,000	0	-450,000	0	0
Total equity / Excess of assets over liabilities	**16,318,110**	**-665,425**	**-450,000**	**-8,155,312**	**7,047,374**
Liabilities					
Subordinated debt	600,000	0	481,552	55,326	1,136,880
Other borrowed funds	209,939	-3,860	293	88	206,460
Insurance and investment contracts	71,326,558	0	0	12,198,291	83,524,849
Financial liabilities at fair value through porift or loss	1,229,750	-346	-15,965	0	1,213,439
Deferred tax liabilities	2,001,839	-312,735	1,007,760	-2,696,864	0
Other liabilities	2,249,079	-75,841	-84,435	0	2,088,803
Total liabilities	**77,617,165**	**-392,782**	**1,389,206**	**9,556,841**	**88,170,430**
Total equity and liabilities	**93,935,275**	**-1,058,207**	**939,205**	**1,401,531**	**95,217,804**

Reference is made to the 2017 Consolidated annual accounts of NN Leven for more detailed information on the IFRS Balance sheet. Reference is made to QRT S.02.01.02 'Balance sheet' in the Appendix for the full Solvency II Balance sheet. The values in these tables may differ from those included in Note 41 'Risk Management' in the 2017 Consolidated annual accounts of NN Leven due to classification and valuation differences to reflect a risk management view.

For Solvency II reporting, Principal subsidiaries are not consolidated line-by-line while they are for IFRS reporting. The impact from this difference is reflected above in the column 'Consolidation scope'.

The valuation and presentation differences between IFRS and Solvency II resulting from differences in accounting principles and methods are explained in the sections below. For items where no valuation difference occurred, reference is made to Note 1 'Accounting policies', Note 26 'Fair value of financial assets and liabilities' and Note 27 'Fair value of non-financial assets' in the 2017 Consolidated annual accounts of NN Leven for a description of the bases, methods and main assumptions used for their valuation.

The most important presentation differences are the presentation of money market funds, Deferred taxes and accrued interest. The most important valuation differences are related to loans and technical provisions.

Details of these and other valuation, presentation and consolidation differences are included in Section D.1- D.3 below.

Valuation for Solvency purposes continued

D.1 Assets

Accounting principles, methods and main assumptions used

In general, Solvency II valuation requires a market consistent approach to the valuation of assets and liabilities. The default reference framework for valuing assets and liabilities, other than technical provisions, is IFRS as endorsed by the European Union ('IFRS-EU'). The exception is if the IFRS valuation principle does not reflect a market consistent valuation (e.g. amortised cost). For main assumptions used in fair valuing assets, reference is made to Note 26 'Fair value of financial assets and liabilities' and to Note 27 'Fair value of non-financial assets' in the 2017 Consolidated annual accounts of NN Leven.

Cash and cash equivalents

In the IFRS balance sheet, cash and cash equivalents are reported at the notional amount. In the Solvency II balance sheet, cash and cash equivalents are reported at market value. There are no significant valuation differences between IFRS and Solvency II for cash and cash equivalents as the market value is not significantly different from the notional value. Total presentation differences of EUR -5 million as at 31 December 2017 are caused by the presentation of short term deposits and money market funds as loans in the Solvency II balance sheet. Differences due to a different scope of consolidation amounted to EUR -159 million as at 31 December 2017.

Investments (excluding loans)

In the IFRS balance sheet, investments are reported at fair value. In the Solvency II balance sheet, investments are reported at market value. There are no significant valuation differences between IFRS and Solvency II for investments as fair value generally equals market value. Presentation differences of EUR 757 million as at 31 December 2017 are caused by the presentation of accrued interest as part of the investments, instead of a separate presentation as accrual under IFRS. Solvency II requires accrued interest to be presented as part of the investments ('dirty market value') and not separately as other assets as in the 2017 Consolidated annual accounts of NN Leven ('clean market value').

Differences due to a different scope of consolidation amounted to EUR -1,139 million as at 31 December 2017.

Loans

In the IFRS balance sheet, loans are reported at amortised cost. In the Solvency II balance sheet, loans are reported at market value. For loans that are repriced frequently and have had no significant changes in credit risk, the carrying values in the 2017 Consolidated annual accounts of NN Leven represent a reasonable estimate of the market value for Solvency II. For other loans the market value is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions. The market value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Valuation differences between IFRS and Solvency II for loans represents the difference between amortised cost and market value of EUR 1,644 million as at 31 December 2017.

Presentation differences of EUR 96 million as at 31 December 2017 are caused by:

- The different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the loans ('dirty market value') and not separately as other assets as in the 2017 Consolidated annual accounts of NN Leven ('clean market value').
- Presentation of short term deposits and money market funds as loans under Solvency II, instead of their inclusion in cash and cash equivalents under IFRS.

Differences due to a different scope of consolidation amounted to EUR 200 million as at 31 December 2017.

Reinsurance contracts

Reference is made to section D2 'Technical provisions' of this SFCR.

Associates and joint ventures (Holdings in related undertakings)

In the IFRS balance sheet, associates and joint ventures are reported at net asset value (equity accounting).

In the Solvency II balance sheet, non-Solvency II entities are recognised as associates and measured at the local regulatory capital in accordance with the local (sectoral) rules. Valuation differences of EUR 10 million as at 31 December 2017 represents the difference between the value of the associates under IFRS and the local regulatory capital of these entities.

All holdings in related undertakings were either valued using quoted market prices in active markets or by using the adjusted equity method (when a stock listing was not available).

Differences due to a different scope of consolidation amounted to EUR 2,417 million as at 31 December 2017.

Valuation for Solvency purposes continued

Real estate investments

In the IFRS balance sheet, real estate investments are reported at fair value. In the Solvency II balance sheet, real estate investments are reported at market value. There are no significant valuation differences between IFRS and Solvency II for real estate investments as fair value generally equals market value. Differences in real estate investments recognised in the IFRS and the Solvency II Balance sheets due to a different scope of consolidation amounted to EUR -2,227 million as at 31 December 2017.

Property and equipment

In the IFRS balance sheet, property in own use is reported at fair value. In the Solvency II balance sheet, property in own use is reported at market value. There are no significant valuation differences between IFRS and Solvency II for property in own use as fair value generally equals market value. In the IFRS balance sheet, equipment is reported at cost less depreciation. In the Solvency II balance sheet, equipment is reported at market value. There are no significant valuation differences between IFRS and Solvency II for equipment, as market value is generally not significantly different from depreciated cost.

Intangible assets

Intangibles such as software can be recognised and measured at a value other than nil if they can be sold separately and if there is a quoted market price in an active market for the same or similar intangible assets. As there is no quoted market price for NN Leven's intangible assets, it is valued at nil for Solvency II purposes.

Deferred acquisition costs

Deferred acquisition costs are not recognised for Solvency II purposes.

Deferred taxes

Under IFRS, deferred tax assets are part of the other assets. In the IFRS balance sheet, deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, are valued on the basis of the difference between the tax bases of assets and liabilities and their carrying values. A positive value to deferred taxes is only attributed where it is probable that future taxable profit will be available against which the deferred tax asset can be used, taking into account any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses or credits.

Reference is made to Note 25 'Taxation' of the 2017 Consolidated annual accounts of NN Leven for more information on the origin of the recognition of deferred tax assets and the amount and expiry date of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the IFRS balance sheet.

In the Solvency II balance sheet, deferred tax assets and liabilities are recognised and valued in conformity with IFRS. However, the differences in valuation of assets and liabilities as set out in sections D.1 'Assets', D.2 'Technical provisions' and D.3 'Other liabilities' result in an additional EUR 2,703 million of deferred tax assets (deferred taxes assets EUR 1,014 million, deferred taxes liabilities EUR -1,689 million) recognised in the Solvency II balance sheet as at 31 December 2017.

Other assets

In the IFRS balance sheet, other assets are reported at their notional amounts. In the Solvency II balance sheet, other assets (with the exclusion of deferred taxes) are reported at market value.

Presentation differences of EUR -917 million as at 31 December 2017 consist of the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing investments ('dirty market value') and not separately as other assets as in the 2017 Consolidated annual accounts of NN Leven ('clean market value').

Differences in other assets recognised in the IFRS and the Solvency II Balance sheets due to a different scope of consolidation amounted to EUR -151 million as at 31 December 2017.

Changes in valuation bases

During 2017, no material changes were made to the recognition and valuation bases, or estimations used, in the measurement of assets on the Solvency II balance sheet.

Valuation for Solvency purposes continued

D.2 Technical provisions

Value of the technical provisions

The value of technical provisions, including the amount of the Best Estimate of Liabilities ('BEL') and the Risk Margin ('RM') is disclosed below separately for each material line of business as at 31 December 2017:

Value of technical provisions by Solvency II Business Line

As at 31 December 2017. In EUR thousand	BEL	Risk margin	Technical provisions
Technical provision by Solvency II Business line:			
1. Life	66,044,836	3,100,034	69,144,870
2. Life similar to health	9,213	190	9,403
3. Index-linked and Unit-linked	13,936,975	433,602	14,370,576
Total	**79,991,024**	**3,533,825**	**83,524,849**

Bases, methods and main assumptions used for solvency valuation

Technical Provisions are measured for Solvency II purposes as the sum of the BEL and a RM. The BEL is equal to the probability-weighted average of the present value of the future liability cash flows, based on the relevant risk-free interest rate term structure. The RM is defined as the amount that an empty (re)insurance entity is expected to require in excess of the BEL in order to take over and meet the (re)insurance obligations.

Best estimate of liabilities

NN Leven uses cash flow models and best estimate assumptions to determine the BEL under Solvency II. Premiums, benefits, expenses and other relevant cash flows are projected for the policy term – subject to contract boundaries – and discounted at the currency specific risk-free interest rate term structure to allow for financial risk with currency specific Credit Risk Adjustments ('CRA') and a Volatility Adjustment ('VOLA'). This is the full-cash flow approach and is typical for traditional business. For unit-linked business, NN Leven mainly uses a method where margins are projected(expenses and charges) as investment risks are borne by the policyholder. Cash flows are either projected on a per policy basis or individual policies are grouped into representative model points.

Cash flows are projected along a sufficiently large number of future risk-free interest rate scenarios to allow for one-sided financial options and guarantees. This is typical for business with profit sharing on top of a fixed interest rate guarantee and unit-linked products with a return guarantee. The best estimate risk-free interest rate term structure is used in those instances where there are no embedded options or guarantees.

The cash flow projections consider management actions that can be taken to mitigate the loss to NN Leven, management policy covering the distribution of future discretionary benefits and the predictability and profit sharing of liability cash flows. The cash flow projections used in the calculation of the BEL are based on the best estimate assumptions. The cash flow projection reflects the expected realistic future demographic, legal, medical, technological, social, environmental and economic developments that will have a material impact on the BEL.

Assumptions underlying the BEL are portfolio-specific rather than entity-specific. Entity-specific assumptions are used only insofar as those assumptions enable the entity to better reflect the characteristics of the portfolio or where the calculation of the BEL in a realistic, reliable and objective manner without those assumptions is not possible.

NN Leven reports a relatively small portion of un-modelled Technical Provisions. For un-modelled business, in general Technical Provisions are estimated either by scaling of modelled business or by setting Solvency II Technical Provisions equal to IFRS provisions. Where these approaches are taken, the Actuarial Function Holder has provided an opinion that the approaches are acceptable given the materiality of the Technical Provisions.

Reinsurance and other recoverables

The BEL are estimated gross, without deduction of the amounts recoverable from reinsurance contracts. The amounts recoverable from reinsurance contracts and expected losses due to counterparty default are calculated separately. The principles used to calculate the amounts recoverable are consistent with those underlying the calculation of the gross BEL.

Risk margin

In addition to the BEL a RM is held to allow for non-hedgeable market and non-market risks. The calculation of the RM is performed by either explicitly calculating the SCR for each future year or by using a driver approach. Long-Term Guarantee ('LTG') measures are excluded from the calculation of the SCRs and in the discounting, when calculating the RM.

With the driver approach, the relevant sub-risk SCRs - either Internal Model or Standard Formula - are projected using appropriate risk drivers, multiplied by the cost of capital of 6% (net of tax), then discounted at the relevant risk free rate term structure. The sub-risk market value margins are aggregated using the relevant diversification factors. Note that this is a simplification as Solvency II requires the individual SCRs to be diversified at each future point in time. NN Leven's simplification does not lead to a material misestimation of the RM.

Valuation for Solvency purposes continued

Assumptions

Non-financial assumptions

Assumptions are set for expenses, mortality, morbidity and other relevant insurance risks using historical experience of the insurance portfolio. Assumptions are reviewed by NN Leven at least annually and submitted to the Model Committee (MoC) for approval or for information, depending on materiality, following NN Leven's model governance. Note that Best estimate assumptions are approved by the Pricing and Valuation MoC whereas Risk assumptions are approved by the Risk MoC.

Policyholder behaviour regarding lapses, partial and full surrenders and paid-ups are taken into account subject to the boundaries of the contracts. Management actions are reflected in the cash flow projections. These are mostly current management actions related to dynamic decision rules in the asset liability models of NN Leven. Future management actions are assumed for portfolios including discretionary benefits.

Boundaries of insurance contracts are based on a detailed investigation of terms and conditions.

Financial assumptions

NN Leven follows EIOPA requirements in determining the basic risk-free rates and the VOLA to determine the relevant currency specific risk free rate term structure for valuation of Technical Provisions. Because EIOPA curves are not available in time for NN Leven to start their valuations, NN Leven follows the EIOPA methodology to independently produce the curves. These are then compared to the published EIOPA curves when these are made available to ensure consistency between the EIOPA and the NN Leven manufactured curves. At year-end 2017, the EIOPA and NN Leven curves were identical.

Changes in assumptions

During 2017, NN Leven reviewed their best estimate assumptions and updated them where necessary. The most material were changes to mortality and updates to the trend uncertainty driver used in the calculation of the RM both increasing the Own Funds.

Options and guarantees

When establishing technical provisions at NN Leven, all material financial guarantees and contractual options included within the boundary of insurance and reinsurance policies are taken into account. In doing so, factors which may affect the likelihood that policyholders will exercise contractual options or realise the value of financial guarantees are analysed.

The intrinsic value of financials options and guarantees is reflected in the single (deterministic) cash flow projection of technical provisions. These include the interest rate guarantees implicit in traditional products as well as policyholder options such as paid-up, surrender etc. where material.

A stochastic model is required to determine the time value of options and guarantees (TVoG) where cash flows vary asymmetrically with market returns. The stochastic model uses a number of Monte Carlo simulations (typically, 1,000 to 3,500) to project future cash flows under various economic scenarios. The number of scenarios is set in order to reduce the simulation error to within the tolerance level. Currently, such error should be less than 1% of the best estimate liabilities, as determined by taking 80% confidence interval of the mean standard error of the simulations. NN Leven performs a test to ensure the simulation error is within the established limits and increase number of scenarios used if the test does not satisfy the requirements. Nearly the entire TVoG for NN Leven is from NN Leven's group pension business.

Dynamic policyholder behaviour has been reflected where it is deemed material to the valuation under the different economic environments reflected in the stochastic scenarios. Where future profit sharing is dependent on economic conditions, the variability is taken into account in the TVoG. Where management actions have been taken into account, these are consistent with policies signed-off by the respective boards.

The Actuarial Function Holder has assessed the allowances made in respect of options and guarantees in the technical provisions and the underlying assumptions, and came to the conclusion that such allowances are appropriate.

Level of Uncertainty

For the level of uncertainty associated with the value of the technical provision, reference is made to the Own Funds at risk-Insurance risk in Note 41 'Risk Management' in the 2017 Consolidated annual accounts of NN Leven.

Valuation for Solvency purposes continued

Main differences between IFRS and Solvency II valuation of technical provisions

As at 31 December 2017. In EUR thousand	IFRS	Valuation differences	Solvency II
Technical provision by Solvency II Business line:			
1. Life	58,042,712	11,102,158	69,144,870
2. Life similar to health	29,498	-20,095	9,403
3. Index-linked and Unit-linked	13,254,349	1,116,227	14,370,576
Total	**71,326,559**	**12,198,291**	**83,524,849**

Summary of main differences between IFRS and Solvency II as at 31 December 2017

At 31 December 2017, the valuation differences between the insurance and investment contracts recognised in the IFRS balance sheet and the technical provisions recognised in the Solvency II balance sheet of NN Leven amounted to EUR 12,198 million. Methods and models used in calculating the Solvency II technical provisions and IFRS insurance liabilities differ substantially. The main valuation differences between IFRS and Solvency II are outlined below:

- Insurance liabilities in the IFRS Balance sheet 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 2005, NN Leven decided to continue the then existing accounting principles for insurance contracts under IFRS-EU
- The BEL in Solvency II is calculated as the probability-weighted average of the present value of future liability cash flows using best estimate assumptions
- A RM for non-hedgeable risks is added to the BEL to establish the Solvency II technical provisions
- Different interest rates are used for calculation of insurance and investment contracts under IFRS and Solvency II. For Solvency II a risk-free interest rate curve with credit risk and VOLA where applicable is used. NN Leven does not apply a matching adjustment. For IFRS a fixed interest rate/guaranteed technical interest rate is used
- The present value of future profits is recognised in Solvency II technical provisions but not in IFRS technical provisions
- The difference between IFRS and Solvency II technical provisions is primarily reflected in the Life Business line, where IFRS technical provisions largely reflect assumptions - interest, mortality, morbidity, expense, etc. - locked-in at policy issue, which can depart significantly from the best estimate assumptions reflected in the Solvency II provisioning.
- For index-linked and unit-linked insurance the IFRS technical provisions are equal to the fund value of these contracts. For Solvency II technical provisions, the present value of the margins is deducted from the fund value
- The valuation differences between IFRS technical provisions and Solvency II technical provisions described in the above paragraph also apply to reinsurance contracts

Matching and volatility adjustment, transitional measures, and transitional risk-free interest rate-term structure

QRT S.22.01.21 'Impact of long term guarantees and transitional measures' in the Appendix provides the quantitative impact of excluding the so-called Long-Term Guarantee ('LTG') measures and Transitional measures from own funds and the SCR. QRT S.22.01.21 mandate disclosure of the quantitative impact of excluding:

- Transitional measures in respect of technical provisions
- Transitional measures in respect of interest rates
- Volatility adjustment
- Matching Adjustment

on:

- Technical provisions
- Basic own funds
- Eligible Own Funds to meet Solvency Capital Requirement
- Solvency Capital Requirement

All the elements of which the impact is excluded in this QRT are an integral part of the Solvency II framework. The resulting own funds and SCR should therefore not be seen as a replacement of, or alternative for, the own funds and SCR as determined in accordance with Solvency II. For NN Leven, the VOLA is of relevance given its liability profile and its approach to match cash-flows of these liabilities with corresponding fixed income instruments. Transitional measures in respect of technical provisions and interest rates and Matching Adjustment are not applied by NN Leven.

Valuation for Solvency purposes continued

Ultimate Forward Rate ('UFR')
At the end of 2017, the Ultimate Forward Rate ('UFR') for EUR under Solvency II is set at 4.2 % and is used for reporting the 2017 results. In April 2017, EIOPA published an updated methodology to derive the UFR, which is subject to approval by the European Commission. In line with the updated methodology, the calculated value of the UFR for EUR is 3.65%, but annual changes to the UFR will not be higher than 15 basis points. Therefore the UFR for EUR is expected to decrease from 4.2% to 4.05% for the first quarter of 2018.

Volatility adjustment
NN Leven applies the yield curve as published by EIOPA for the calculation of the technical provisions under Solvency II. In line with Solvency II regulations, this yield curve includes a Volatility adjustment component. As at 31 December 2017, the level of the VOLA for the Euro currency was 4 bps.

The application of the VOLA resulted in a reduction of EUR 357 million in technical provisions, contributing EUR 268 million (after tax) to Basic own funds as at 31 December 2017. Excluding the VOLA from the calculation of technical provisions and SCR would increase the Eligible own funds by EUR 125 million as stated in QRT S.22.01.21 'Impact of long term guarantees and transitional measures' as included in the Appendix.

In the calculation of the SCR, NN Leven assumes no change to the VOLA after a shock-event, but reflects the illiquidity of liabilities in the asset shocks to ensure appropriate solvency capital requirements. This 'Dynamic VOLA' approach is approved by DNB, in particular to ensure appropriate risk incentives on asset allocation decisions. NN Leven also shocks all government bonds and its mortgage portfolio in the calculation of spread risk capital requirements. Under the Standard Formula no capital is required to be held against spread risk arising from these assets.

If the Dynamic VOLA would be excluded from the SCR calculation, the spread risk on government bonds and mortgages would need to be adjusted accordingly. However, for the completion of QRT S.22.01.21 'Impact of long term guarantees and transitional measures' in the Appendix, NN Leven is required to reflect only the impact of excluding the VOLA from Eligible Own Funds and the SCR, without adjusting for the spread risk on government bonds and mortgages.

The table below shows the impact of excluding both the Dynamic VOLA as well as spread risk on government bonds from the SCR, in combination with removing the VOLA from Eligible Own funds. In such scenario, the SCR would be EUR 1,346 million higher and Eligible Own Funds would be EUR 155 million lower.

Amount without Long-Term Guarantees and transitional measures

As at 31 December 2017. In EUR thousand	Amount with Long Term Guarantee measures and transitionals (A)	Impact of volatility adjustment set to zero and eliminating additional credit spread shock (B)	Amount without Long-Term Guarantee measures and transitionals (C) =(A)+(B)
Technical provisions	83,524,849	356,570	83,881,420
Basic own funds	8,152,701	-267,507	7,885,194
Eligible own funds to meet Solvency Capital Requirement	7,669,849	-154,633	7,515,216
Solvency Capital Requirement	3,539,612	1,346,248	4,885,860

D.3 Other liabilities
Subordinated debt and Other borrowed funds
In the IFRS balance sheet, subordinated debt, debt securities issued and other borrowed funds are reported at amortised cost. In the Solvency II balance sheet, these borrowings are reported at market value, excluding an adjustment for NN Leven's own credit risk.

In Solvency II market value, (a change in) the own credit risk is not taken into account. The Solvency II market value of subordinated debt is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments. The Solvency II market value of other borrowed funds, is generally based on quoted market prices or, if not available, on prices estimated by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Valuation differences between IFRS and Solvency II for Subordinated debt of EUR 55 million and other borrowed funds of EUR 0,1 million represent the difference between amortised cost and market value, excluding an own credit element.

Other presentation differences include the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing liabilities ('dirty market value') and not separately as other liabilities as in the 2017 Consolidated annual accounts of NN Leven ('clean market value'). In addition to this presentation difference, subordinated debt presented as equity under IFRS is

Valuation for Solvency purposes continued

presented as liability under Solvency II. Total presentation differences for subordinated debt amounted to EUR 482 million as at 31 December 2017.

Debt securities issued in IFRS is presented as other borrowed funds in Solvency II, causing a presentation difference of EUR 0,3 million.

Differences due to a different scope of consolidation amounted to EUR -4 million for the other borrowed funds as at 31 December 2017.

Deferred tax liabilities

Reference is made to section D1 'Deferred tax assets'

Other liabilities

In the IFRS balance sheet, other liabilities are reported at the notional amount. In the Solvency II balance sheet, other liabilities (with the exclusion of deferred taxes) are reported at market value.

Presentation differences include the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing liability ('dirty market value') and not separately as other liabilities as in the 2017 Consolidated annual accounts of NN Leven ('clean market value'). Presentation differences amounted to EUR -84 million as at 31 December 2017.

Differences due to a different scope of consolidation amounted to EUR -76 million as at 31 December 2017.

Contingent liabilities and provisions

Part of the other liabilities are the contingent liabilities and provisions. In the IFRS balance sheet, provisions are recognised when:

- An entity has a present obligation (legal or constructive) as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

In the IFRS balance sheet, provisions are recognised for the amount representing the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Contingent liabilities are not recognised in the IFRS balance sheet. These are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

In the Solvency II balance sheet, all material contingent liabilities are recognised as liabilities for the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure.

Valuation differences between IFRS and Solvency II for contingent liabilities and provisions represent:

- A recognition difference: contingent liabilities are not recognised in the IFRS balance sheet, but are recognised in the Solvency II balance sheet if the exposure can be reliably estimated
- A measurement difference: provisions are measured in the IFRS balance sheet using the best estimate outcome (i.e. the full amount that may be incurred), while Solvency II requires a provision for the probability weighted outcome (i.e. the probability multiplied by the impact of the differences as at 31 December 2017)

For more details on other provisions and contingent liabilities, reference is made to Note 34 'Contingent liabilities and commitments' and Note 35 'Legal proceedings' in the 2017 Consolidated annual accounts of NN Leven.

Leasing

Information on operating lease arrangements are recognised in Note 24 'Other operating expenses' and Note 34 'Contingent liabilities and commitments' in the 2017 Consolidated annual accounts of NN Leven. There are no financial lease arrangements within NN Group.

Expected profits in future premiums

For existing business, expected profits included in future premiums are reflected in the technical provisions and therefore contribute to the Own Funds. For more information on the expected profits in future premiums, reference is made to QRT S.23.01.01 'Own funds' as included in the Appendix.

Outflow of economic benefits

For the expected timing of the outflows of economic benefits reference is made to Note 30 'Liabilities by maturity' in the 2017 Consolidated annual accounts of NN Leven. Uncertainties surrounding the amount or timing of the outflows of economic benefits is described in the Liquidity Risk paragraph in Note 41 'Risk management' in the 2017 Annual Report NN Leven. The uncertainties in amount or timing of other liability cash flows are low. Deviation risk was not taken into account in the valuation of the other liabilities.

Valuation for Solvency purposes continued

Changes during 2017

No significant changes were made to the recognition and valuation bases nor on estimations of the other liabilities during the reporting period.

D.4 Alternative methods for valuation

Alternative valuation methods used

Alternative valuation methods are used by NN Leven to determine the fair value of assets and liabilities if quoted market prices in active markets are unavailable. Reference is made to Note 26 'Fair value of financial assets and liabilities' and Note 27 'Fair value of non-financial assets' in the 2017 Consolidated annual accounts of NN Leven for more information on the valuation approaches used.

D.5 Any other information

Active markets

Information on the criteria used to assess whether markets are active is included in Note 1 'Accounting policies' in the 2017 Consolidated annual accounts of NN Leven . The valuation methods used if the markets are inactive are described in Note 26 'Fair value of financial assets and liabilities' in the 2017 Consolidated annual accounts of NN Leven .

Estimation uncertainties

For the major sources of estimation uncertainty, reference is made to the Own funds at risk in Note 41 'Risk Management' in the 2017 Consolidated annual accounts of NN Leven.

Capital management

E. Capital Management

Introduction
This chapter of the SFCR contains information on the capital management of NN Leven, including the reconciliation of IFRS equity to Solvency II Own Funds, NN Leven's Minimum Capital Requirement ('MCR') and detailed information on NN Leven's Partial Internal Model.

E.1 Own funds
Reference is made to Note 42 'Capital and liquidity management' in the 2017 Consolidated annual accounts of NN Leven for:

- The objectives, policies and processes employed by NN Leven for managing its own funds, including information on the time horizon used for business planning and on any material changes over the reporting period
- The structure, amount and quality of own funds, including the extent to which each material own fund item is available and subordinated, as well as its duration and any other features that are relevant for assessing its quality
- The amount of Eligible Own Funds to cover the SCR and MCR, classified by tiers

NN Leven did not have ancillary own funds during 2017 or as at 31 December 2017.

Solvency II Basic Own Funds represents the excess of assets over liabilities in the Solvency II balance sheet. It comprises the following items:

- Paid-in ordinary share capital and the related share premium account
- Not distributed profits from previous years and the profit accrued during the reporting year
- The amount equal to the value of net deferred tax assets
- A reconciliation reserve reflecting the accumulated unrealized revaluations on balance sheet items that are not yet recycled through the Profit and Loss. These items include technical reserves for own account policies, bonds and loans, derivatives under hedge accounting programs and similar assets.

Impact of long term guarantees and transitional measures
The quantification of the impact of a change to zero of the VOLA on NN Leven's financial position, represented by an adjustment on the amount of technical provisions, the SCR, the basic own funds and the Eligible Own Funds is included in Section D.2 and QRT S.22.01.21 'Impact of long term guarantees and transitional measures' in the Appendix. No transitional measures are applicable for NN Leven.

Items deducted from own funds
Under Solvency II, Own funds are reduced by 'foreseeable dividends, distributions and charges'. This requirement is different from reporting under IFRS where dividends are deducted from equity (and a corresponding liability is recognised) when they are declared.

Recognition of 'foreseeable dividends and distributions' under Solvency II is relevant for NN Leven in two circumstances:

1) Dividends
No foreseeable dividends are subtracted from the 31 December 2017 available equity.

2) Coupons on subordinated liabilities
From the equity per 31 December 2017 an amount of EUR 32 million is subtracted as foreseeable dividend in relation to the subordinated liabilities.

Additional ratios
No additional ratios are disclosed in the Solvency and Financial Condition Report other than the ratios included in QRT S.23.01.01 'Own funds' as included in the Appendix; plus those that are included by reference into this report.

Analysis of significant changes in own funds
Reference is made to Note 42 'Capital and liquidity management' in the 2017 Consolidated annual accounts of NN Leven for an analysis of significant changes in own funds.

The principal loss-absorbency mechanism
During 2017, NN Leven had no principal loss-absorbency mechanism in place.

Capital management continued

Reconciliation reserve

The reconciliation reserve equals the total excess of assets over liabilities reduced by the following key elements:

- Paid-in ordinary share capital and related share premium account
- Paid-in preference shares and related share premium account
- The amount equal to the value of net deferred tax assets
- Foreseeable dividends and distributions

The reconciliation reserve is included in QRT S.23.01.01 'Own funds' in the Appendix to this report.

Reconciliation IFRS equity to Own Funds

Reconciliation IFRS equity to Solvency II Basic Own Funds

In EUR thousand	2017	2016
IFRS Shareholders' Equity	15,202,379	15,894,518
Elimination of deferred acquisition costs and other intangible assets	-243,812	-252,559
Valuation differences on assets	1,639,309	1,555,362
Valuation differences on liabilities, including insurance and investment contracts	-12,253,705	-13,490,334
Deferred tax effects on valuation differences	2,703,203	3,030,386
Excess assets/ liabilities	**7,047,374**	**6,737,373**
Qualifying subordinated debt	1,136,880	1,154,807
Foreseeable dividends and distributions	-31,553	-20,228
Basic Own Funds	**8,152,701**	**7,871,952**

The differences between IFRS Shareholders' Equity in the 2017 Consolidated annual accounts of NN Leven and Solvency II Basic Own Funds of NN Leven as at 31 December 2017 are mainly caused by:

- Valuation differences:
  - Deferred acquisition costs are not recognised for Solvency II purposes
  - Intangible assets are not recognised or recognised at nil under Solvency II
  - Different measurement of:
    - Loans and advances
    - Reinsurance contracts
    - Subordinated loans
    - Insurance and investment contract liabilities
  - The other valuation differences mainly consist of the change in net Deferred Tax Assets or Deferred Tax Liabilities caused by using different valuations for some Solvency II balance sheet items whilst the tax base of these items remained the same.
- Other differences:
  - Foreseeable dividends and distributions are recognised for Solvency II purposes when determining the basic own funds

Reference is made to section D 'Valuation for Solvency Purposes' for more information on the valuation and consolidation differences between IFRS and Solvency II.

Intra-group transactions

There are two significant transactions with other companies within NN Group worth mentioning. All liabilities stemming from commercial contracts from the Czech branch are reinsured at NN Re. All derivative transactions, except interest rate swaps initiated after 21 May 2016, are traded with NN Inter finance.

Eligibility of Own Funds

Reference is made to Note 42 'Capital and liquidity management' in the 2017 Consolidated annual accounts of NN Leven for the eligibility of Own Funds of NN Leven.

Capital management continued

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR

Reference is made to QRT S.25.02.21 in the Appendix and Note 41 'Risk management' of the 2017 Consolidated annual accounts of NN Leven for the amount of the SCR split by risk categories.

NN Leven determined the SCR including:

- Loss-absorbing capacity of technical provisions ('LAC TP'). LAC TP is the part of the technical provisions that can be used to absorb some of the SCR shock losses, as the expected future profit sharing to policyholders will be reduced if actual losses would arise. LAC TP is applicable to insurance policies with discretionary profit sharing
- Loss-absorbing capacity of deferred taxes ('LAC DT'). NN Leven's total loss in a 1-in-200 adverse event would be offset by tax recoveries and these are recognised to the extent to be expected to be recoverable. The determination of LACDT is significantly dependent on various assumptions, such as capitalisation assumptions, the assumed investment returns and the projection period.

Reference is made to QRT S.25.02.21 'Solvency Capital Requirement' in the Appendix.

Deferred tax under Solvency II

The total deferred tax amount in Solvency II arises from:

- Taxable or deductible temporary differences because the carrying amount of assets or liabilities in the balance sheet differs from the tax base of those assets or liabilities. These differences multiplied by the tax rate are recognised as a net deferred tax liability or a net deferred tax asset in the balance sheet. Reference is made to section D.1 'Assets' for the deferred tax asset recognised in the Solvency II balance sheet.
- The LAC DT on the SCR.
- Unused tax losses that are available for carry forward for tax purposes.

Not all valuation differences between the tax basis and Solvency II and SCR shocks will lead to deferred tax as certain elements are exempt for tax. For example: valuation differences on certain equity securities and the equity shock in the SCR on these securities do not result in a deferred tax effect when equity returns are exempt from tax. Therefore, these are excluded from the valuation differences and SCR amounts in order to arrive at the deferred tax balances for Solvency II.

The total deferred tax amount for Solvency II is therefore built up in a number of steps:

- deferred tax assets on unused tax losses
- +/- deferred tax assets/liabilities from valuation differences between IFRS and tax basis (except for non-taxable items)
- = deferred tax asset/liability in the IFRS balance sheet (deferred tax for IFRS)
- +/- deferred tax assets/liabilities from valuation differences between Solvency II and IFRS (except for non-taxable items)
- = deferred tax asset/liability in the Solvency II balance sheet (deferred tax for Own Funds)
- \+ deferred tax on SCR (LAC DT on the SCR) (except for non-taxable items)
- = total deferred tax amount for Solvency II

The 'total deferred tax amount for Solvency II' represents the deferred tax position that would be reflected in a Solvency II balance sheet that is fully shocked in line with the SCR shock. Any net deferred tax asset/benefit - whether for IFRS, Own Funds or SCR - must be tested for recoverability. The general guidance on assessing recoverability is summarised as follows:

Tax assets can only be recognised when it is concluded that their recoverability is probable. This applies to both deferred tax assets from timing differences, deferred tax assets from unused tax losses carried forward and the LAC DT on the SCR.

Capital management continued

Deferred tax assets are recoverable when:

- There are sufficient deferred tax liabilities relating to the same taxation authority and the same taxable entity. These deferred tax liabilities must be expected to reverse either in the same period as the tax asset or in periods into which a tax loss can be carried back or forward
- It is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward)
- Tax planning opportunities are available

Deferred taxes in the IFRS and Solvency II balance sheet are nominal, undiscounted, amounts. Therefore, recoverability testing also only considers nominal, undiscounted, amounts.

Specific guidance applies under Solvency II in respect of item b. 'Sufficient taxable profit' as, different from IFRS, this refers to Solvency II based profits (before and after a shock event) and not to regular (IFRS-based) profits.

In order to assess the recoverability of deferred tax, the total deferred tax amount for Solvency II (i.e. deferred tax in the Solvency II balance sheet plus the LAC DT on the SCR) must be equal to or lower than the total recoverable deferred tax amount in a Solvency II environment.

The recoverable amount must be assessed at the legal entity level and may not - except for the Solvency II balance sheet deferred tax asset only - include amounts from other entities in the Group, independent of existing fiscal unities or tax groups. While from a legal, tax and economic perspective the recoverability would benefit from the existence of a fiscal unity, and therefore the benefit from a fiscal unity is 'real', the Q&A as published by DNB prohibits reflecting the benefit of a fiscal unity in supporting the LAC DT on the SCR. The fiscal unity may be reflected in supporting the deferred tax asset in the Solvency II balance sheet.

As the total deferred tax amount for Solvency II (i.e. the deferred tax asset that exists in a fully shocked SCR balance sheet) is the highest amount, it acts as starting point for the recoverability test. This total amount reflects the differences between the tax values and the Solvency II values for all assets and liabilities and the tax benefit on the SCR. Only if the total deferred tax is non-recoverable, the recoverability of the deferred tax in Own Funds becomes separately relevant.

Due to the strong balance sheet of NN Leven, it is reasonable to assume that NN Leven can continue as a going concern after the shock, without a need to generate external additional capital and without a need to de-risk. The tax recoverability test of NN Leven is performed on this basis.

The total recoverable deferred tax amount in a Solvency II environment may come from various sources and includes both recoverability from items that never impact taxable profits and reverse over time as well as sources of profits and losses that would emerge in a Solvency II environment or a Solvency II environment after a SCR-type shock would have occurred. The recoverability is therefore based on an estimation of the total taxable results (including both income and expenses) that is expected to arise in a Solvency II environment after the shock. The sources of recoverability include all components of the estimated future taxable results, irrespective whether these are income ('profit') or expense ('loss').

The following items may be included in determining the total recoverable deferred tax amount:

- The amount of the risk margin in the technical provision
- Return on capital after the shock
- Reversal of the net effects of the credit-spread shock
- Investment spread in excess of interest accretion on technical provisions
- Funding costs over their (expected average) remaining duration. Profits from estimated new business
- Net fee income
- Carry-back

NN Leven has sufficient recoverable amounts to support the total deferred tax position recognised.

The net deferred tax asset is classified as Tier 3 capital. Tier 3 capital cannot exceed 15% of the SCR. Further information on Tiering is included in Note 42 'Capital and liquidity management' in the 2017 Consolidated annual accounts of NN Leven.

Capital management continued

Minumum Capital Requirement

In EUR thousand	2017	2016
Eligible Own Funds to cover Minimum Capital Requirements	6,783,157	6,732,587
of which Tier 1 unrestricted	6,002,028	5,924,223
of which Tier 1 restricted	462,564	468,974
of which Tier 2	318,565	339,390
Minimum Capital Requirements	**1,592,825**	**1,696,950**

For the MCR (and its inputs) as calculated in accordance with the formulas in the Solvency II regulations, reference is made to QRT S.28.01.01 as included in the Appendix.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement
NN Leven does not use the duration-based equity risk sub module.

E.4 Differences between the Standard Formula and any Internal Model used
Internal Model vs Standard Formula
NN Leven applies a Partial Internal Model as it better reflects the risk profile and contains additional benefits for risk management purposes. In particular:

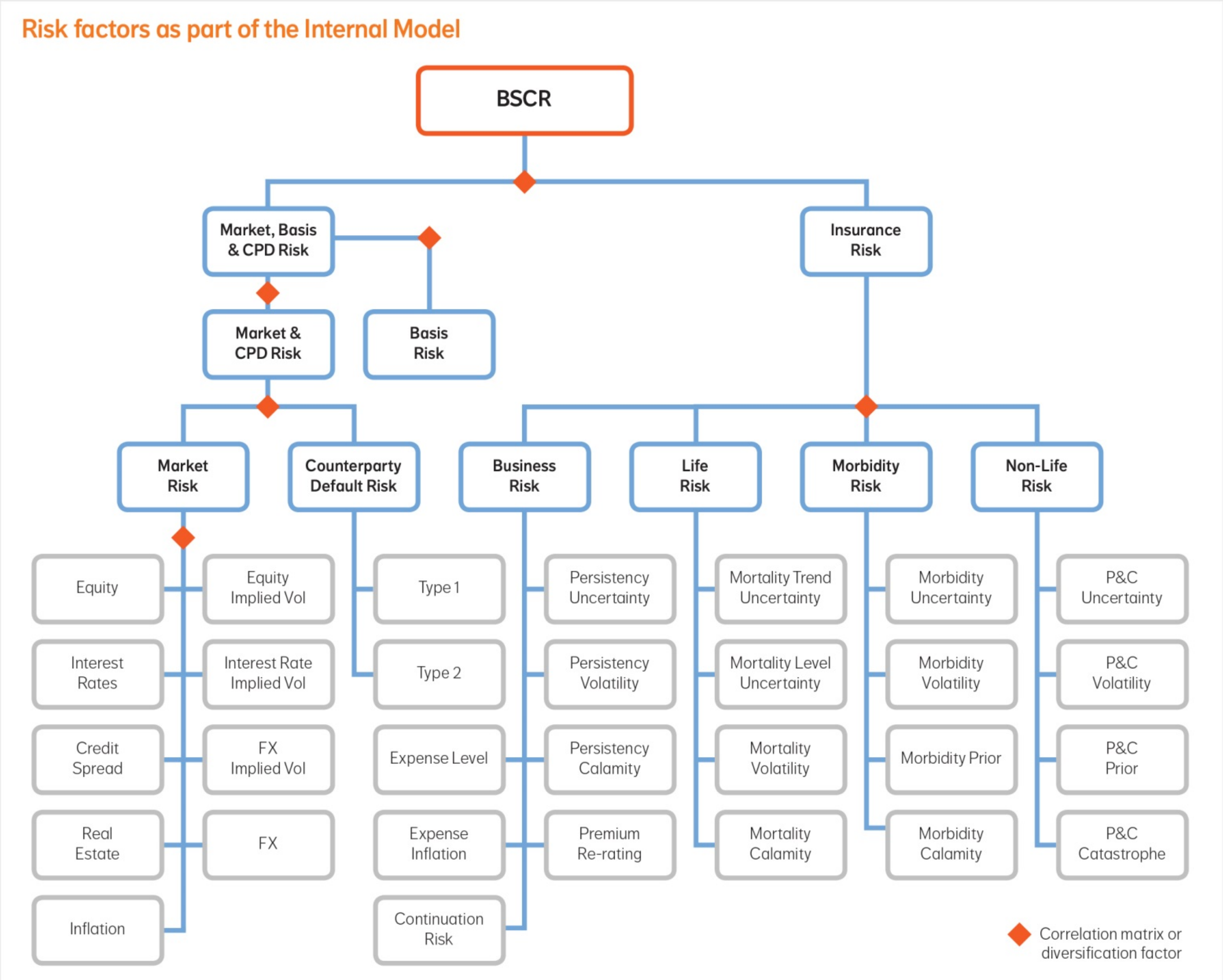
- An Internal Model approach better reflects the specific assets and therefore the market risk in the portfolio of NN Leven e.g. property risk, sovereign and other credit spread risks. In addition, the approach to the most significant non-market risks within NN Leven such as longevity (trend uncertainty) and expense risk (closed block treatment) is better tailored to the specific portfolio characteristics and statutory reserves set up according to local company law
- In the case of Disability/Morbidity Risks, the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands
- The Standard Formula diversification assumptions do not recognise all the diversification of risks that exists in the NN Leven portfolios
- The Internal Model accounts for the volatility adjuster in the liability discount rate by means of a dynamic volatility adjustment. Reference is made to section D.2 (in paragraph 'Matching and volatility adjustment, transitional measures and transitional risk-free interest rate term structure' on pages 20-21) for further information on NN Leven's 'Dynamic VOLA'

There are no differences between the Internal Models used at NN Leven and the Internal Model used to calculate the Group SCR.

Capital management continued

Risks covered by the Internal Model which are not –or differently- covered in the Standard Formula

Risk arises from the possibility that actual experience will negatively deviate from expectations, which results in economic losses for NN Leven. In this respect, NN Leven identified the following risk factors, and developed probability distributions for these various risk factors, as part of its Internal Model, which leads to the Basic Solvency Capital requirement ('BSCR'):



1 This scheme reflects the NN Group Internal Model, some risks are not applicable for NN Leven

Capital management continued

In addition to the risks covered in the Standard Formula, the Internal Model includes the following risks (in addition to the differences mentioned in the beginning of section E4):

- Inflation risk is defined as the risk associated with adverse changes in both realised and future expected inflation rates
- Equity implied volatility refers to the possibility of adverse changes in Solvency II own funds due to adverse changes in the level of equity implied volatilities
- Interest rate implied volatility refers to the possibility of adverse changes in Solvency II own funds due to adverse changes in the level of interest rate implied volatilities
- Foreign Exchange implied volatility refers to the possibility of adverse changes in Solvency II own funds due to adverse changes in the level of FX implied volatilities
- Basis risk is the risk that occurs if the underlying asset or liability behaves differently than the underlying hedge instrument
- Continuation risk refers to political, country or legal risk

The most important differences between the Internal Model and the Standard Formula in covered risk factors are:

- Interest Rate Risk:
  - The Internal Model incorporates several shocks, including non-parallel ones, to the curve instead of only two parallel shocks used in the Standard Formula
  - When interest rates are at low levels, the Internal Model uses absolute shocks, while the Standard Formula uses relative shocks
  - The Internal Model allows for negative interest rates, whereas the Standard Formula does not
  - In the Internal Model, first, the shock is applied to the interest rates and then the resulting rates are extrapolated to the Ultimate Forward rate. In the Standard Model the interest rates are first extrapolated to the Ultimate Forward rate and afterwards the shock is applied
  - In the Internal Model NN Leven convergence to the UFR after shock and thereby follow the dynamics of the balance sheet, whereas in the Standard Formula there is no convergence to the UFR after shock

- Equity Risk:
  - Level of shocks differs mainly because it is calibrated to the equity portfolio of NN Leven

- Credit Spread Risk:
  - Shocks in the Internal Model apply to all fixed income assets, whereas the Standard Formula does not apply shocks to the bonds issued by countries which are EU members
  - In the Internal Model mortgages and loans are treated under Credit Spread Risk, whereas in the Standard Formula these are shocked as part of Counterparty Default Risk

- Real Estate Risk:
  - Shock applied in the Standard Formula is calibrated to historical prices observed in the UK property market, while the shock in the Internal Model is calibrated to actual exposures of NN Leven

- Counterparty Default Risk:
  - Counterparty Default Risk module in the Standard Formula includes shocks applied to mortgage exposure, which are included under the Credit Spread module in the Internal Model

- Life Risk:
  - Under the Internal Model, longevity risk (trend uncertainty) is better tailored to the specific portfolio characteristics, whereas under the Standard Formula the longevity risk is estimated by permanently decreasing all mortality rates by the same fixed percentage.

Capital requirements for operational risk are calculated in NN Leven based on the Standard Formula, and added to the combined BSCR. Next, loss absorption effects from technical provisions and taxes are included.

Capital management continued

The table below shows the results for the steps described above.

Solvency Capital Requirement

In EUR thousand	2017	2016
Market Risk	2,718,024	2,993,637
Non-market risk	3,097,455	3,244,081
Diversification	-1,453,698	-1,616,382
Partial Internal Model BSCR	**4,361,781**	**4,621,336**
Operational Risk	325,154	328,601
Capital add-on	-6,600	-
Loss-Absorbing Capacity of Technical Provisions	-91,516	-50,219
Loss-Absorbing Capacity of Deferred Taxes	-1,049,207	-1,128,718
Total SCR	**3,539,612**	**3,771,000**

Further reference is made to the QRT 25.02.21 in the Appendix.

The nature and appropriateness of the data used in the Internal Model

Market data is collected from pre-defined external data sources. The market data methodologies are based on the following key principles:

- All relevant market data must be used when it is available and is of sufficient quality, i.e. data derived from deep, liquid and transparent ('DLT') markets; for most of the market risk models NN Leven uses standard well established market data sources
- The market data used should be of sufficient quality; e.g. for most of the market risk models standard well established market data sources are used. The data is analysed for correctness as part of the calibration process;
- From the last observable liquid market data point, extrapolation methods must be used to complete the data set
- Extrapolated market data should:
  - Be free of arbitrage
  - Be based on sound theoretical assumptions and/or expert judgment
  - Follow a smooth path from the entry point to the unconditional long-term level
- Estimates of ultimate long-term rates or levels should be stable over time, and only change because of changes in long-term expectations

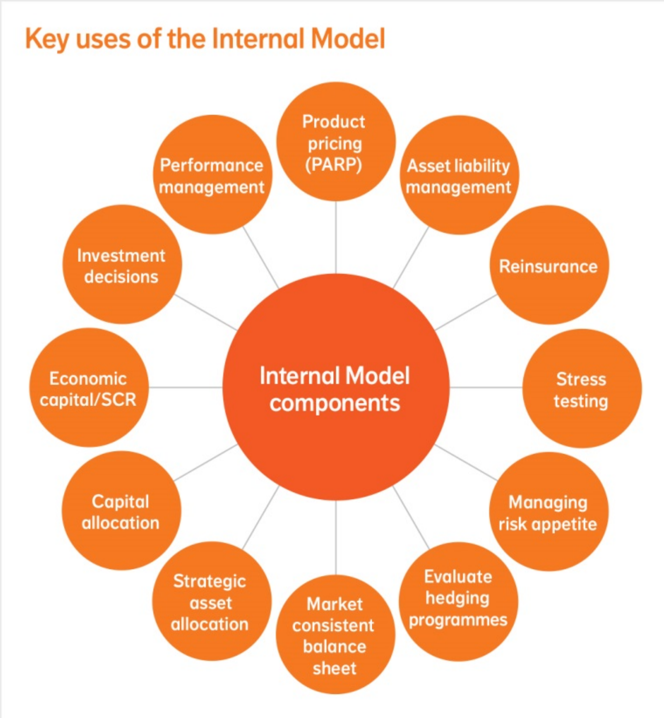
The uses of the Internal Model

The Internal Model allows NN Leven to treat different risk management activities in a consistent way:

- The model provides a framework which is consistent across risk types, businesses and the key uses such as market valuation, capitalisation, product pricing, investments, monitoring of risk appetite and risk mitigation/transfer
- The model facilitates adequate risk management at all levels of the organisation and provides a framework to measure, monitor and manage risks versus NN Leven's risk appetite
- The model allows NN Leven to manage risk in many different ways, e.g.:
  - Manage individual risk types at a much more granular approach, i.e. a stochastic (loss distribution) approach
  - Manage volatility in a stochastic rather than deterministic approach
  - Supports valuation, scenario- and stress analysis by running scenarios in a simple way using replicating portfolios
- The model allows NN Leven to proactively define its risk measurement and management approach rather than awaiting (generic) industry changes to the Standard Formula

The Internal Model is used for different purposes. It is used to measure and manage the risks at all levels within the company, thus covering the entire loss distribution. This information is not only used to determine the SCR to cover tail risks. It is also used for, amongst others, wider risk management, capital management and business decisions such as product pricing and asset allocation. The following diagram provides an overview of the key uses of the Internal Model.

Capital management continued



The methods used in the Internal Model for the calculation of the probability distribution forecast and the Solvency Capital Requirement

For the market risk models the Normal Inverse Gaussian ('NIG') distribution is mostly used. The class of the NIG distributions is a flexible set of distributions that includes fat-tailed and skewed distributions. For some market risk models e.g. for the real estate risk model where fewer data points are available, the Normal or t-distribution are used.

Where there is lack of annual data, higher frequency data is used for the calibration of the distribution parameters. The distribution is then annualised for the calculation of the SCR.

To assess the quality of the calibration, the goodness-of-fit tests and back testing are applied.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

NN Leven complied with the MCR and the SCR during the reporting period.

E.6 Any other information

Reference is made to Note 42 'Capital and liquidity management' in the 2017 Consolidated annual accounts of NN Leven for any other material information regarding the capital management of NN Leven and financial leverage of NN Leven.

Subsequent events

Reference is made to Note 40 'Other events' in the 2017 Consolidated annual accounts of NN Leven for the nature and the effect of material events arising after the balance sheet date which are not reflected in the balance sheet, if any.

Appendix 1

Appendix 1: Quantitative Reporting Templates that form part of the Solvency and Financial Condition Report

This appendix includes certain Quantitative Reporting Templates ('QRTs') of NN Group, required to be reported to DNB and to be publicly disclosed :

Reference number	Title	Description
S.02.01.02	Balance sheet	Balance sheet information using Solvency II valuation methodology
S.05.01.02	Premiums, claims and expenses by line of business	Information on premiums, claims and expenses using the valuation and recognition principles used in NN Leven's Consolidated Annual Report
S.05.02.01	Premiums, claims and expenses by country	Information on premiums, claims and expenses by country using the valuation and recognition principles used NN Leven's Consolidated Annual Report
S.12.01.02	Life and health similar to life provisions	Information on life and health similar to life provisions split by line of business
S.22.01.21	Impact of long term guarantees and transitional measures	Information on the impact of the long term guarantee and transitional measures
S.23.01.01	Own funds	Information on own funds, including basic own funds
S.25.02.21	Solvency Capital Requirement	Information on the Solvency Capital Requirement calculated using the Standard formula and a partial Internal model
S.28.01.01	Minimum Capital Requirement	Information on the Minimum Capital Requirement

All amounts in this appendix are recorded in EUR 1,000.

Appendix 1 continued

S.02.01.02 Balance sheet

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	1,013,793
Pension benefit surplus	R0050	
Property, plant & equipement held for own use	R0060	19
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	59,095,334
Property (other than for own use)	R0080	760
Holdings in related undertakings, including participations	R0090	5,844,708
Equities	R0100	2,659,060
Equities - listed	R0110	2,459,570
Equities - unlisted	R0120	199,489
Bonds	R0130	45,835,827
Government Bonds	R0140	34,084,692
Corporate Bonds	R0150	9,603,619
Structured notes	R0160	526,886
Collateralised securities	R0170	1,620,629
Collective Investments Undertakings	R0180	1,784,561
Derivatives	R0190	2,696,855
Deposits other than cash equivalents	R0200	273,563
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	12,872,734
Loans and mortgages	R0230	19,642,412
Loans on policies	R0240	14,473
Loans and mortgages to individuals	R0250	14,242,302
Other loans and mortgages	R0260	5,385,637
Reinsurance recoverables from:	R0270	1,136,331
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	560,547
Health similar to life	R0320	9,401
Life excluding health and index-linked and unit-linked	R0330	551,147
Life index-linked and unit-linked	R0340	575,783
Deposits to cedants	R0350	152
Insurance and intermediaries receivables	R0360	308,557
Reinsurance receivables	R0370	3,000
Receivables (trade, not insurance)	R0380	1,107,930
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	36,215
Any other assets, not elsewhere shown	R0420	1,327
Total assets	**R0500**	**95,217,805**

Appendix 1 continued

		Solvency II value C0010
Liabilities		
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	69,154,273
Technical provisions - health (similar to life)	R0610	9,403
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	9,213
Risk margin	R0640	190
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	69,144,870
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	66,044,836
Risk margin	R0680	3,100,034
Technical provisions – index-linked and unit-linked	R0690	14,370,576
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	13,936,975
Risk margin	R0720	433,601
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	20,503
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	1,072,741
Deferred tax liabilities	R0780	0
Derivatives	R0790	1,213,439
Debts owed to credit institutions	R0800	206,460
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	821,534
Reinsurance payables	R0830	4,680
Payables (trade, not insurance)	R0840	25,420
Subordinated liabilities	R0850	1,136,880
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	1,136,880
Any other liabilities, not elsewhere shown	R0880	143,925
Total liabilities	**R0900**	**88,170,430**
Excess of assets over liabilities	**R1000**	**7,047,374**

Appendix 1 continued

S.05.01.02 Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations				Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	
		C0210	C0220	C0230	C0240	C0300
Premiums written						
Gross	R1410	32,709	473,764	638,247	1,144,329	2,289,048
Reinsurers' share	R1420	32,709	44,422	71,772	12,543	161,446
Net	R1500	-0	429,341	566,475	1,131,786	2,127,602
Premiums earned						
Gross	R1510	32,934	475,154	638,247	1,144,347	2,290,682
Reinsurers' share	R1520	32,934	45,813	71,772	12,561	163,080
Net	R1600	-0	429,341	566,475	1,131,786	2,127,602
Claims incurred						
Gross	R1610	-10,617	1,220,166	852,036	2,486,819	4,548,405
Reinsurers' share	R1620	-10,617	70,687	76,023	4,539	140,632
Net	R1700	-0	1,149,480	776,013	2,482,280	4,407,773
Changes in other technical provisions						
Gross	R1710	-18,431	362,524	-36,149	610,029	917,974
Reinsurers' share	R1720	-18,431	18,471	-2,033	-662	-2,654
Net	R1800		344,053	-34,116	610,691	920,628
Expenses incurred	**R1900**	**9,889**	**111,481**	**126,261**	**286,499**	**534,131**
Other expenses	R2500					
Total expenses	**R2600**					**534,131**

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations	Total Top 5 and home country
		C0150	C0160	C0210
	R1400		CZ	
		C0220	C0230	C0280
Premiums written				
Gross	R1410	2,135,824	153,224	2,289,048
Reinsurers' share	R1420	160,981	466	161,446
Net	R1500	1,974,844	152,758	2,127,602
Premiums earned				
Gross	R1510	2,135,824	154,858	2,290,682
Reinsurers' share	R1520	162,615	466	163,080
Net	R1600	1,973,210	154,392	2,127,602
Claims incurred				
Gross	R1610	4,415,621	132,785	4,548,405
Reinsurers' share	R1620	140,563	70	140,632
Net	R1700	4,275,058	132,715	4,407,773
Changes in other technical provisions				
Gross	R1710	920,628	-2,654	917,974
Reinsurers' share	R1720	-2,654		-2,654
Net	R1800	923,282	-2,654	920,628
Expenses incurred	**R1900**	**498,774**	**35,356**	**534,131**
Other expenses	R2500			
Total expenses	**R2600**			**534,131**

Appendix 1 continued

S.12.01.02 Life and Health SLT Technical Provisions

		Index-linked and unit-linked insurance			Other life insurance				Health insurance (direct business)		
	Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Total (Life other than health insurance, incl. Unit-Linked)		Contracts without options and guarantees	Total (Health similar to life insurance)
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0150	C0160	C0170	C0210
Technical provisions calculated as a whole R0010											
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole R0020											
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate R0030	14,694,739		8,663,849	5,273,126		32,048,968	19,301,129	79,981,811		9,213	9,213
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default R0080	547,993		505,679	70,104		-6,680	9,834	1,126,930		9,401	9,401
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total R0090	14,146,746		8,158,170	5,203,021		32,055,648	19,291,296	78,854,881		-187	-187
Risk Margin R0100	284,624	433,601			2,815,409			3,533,635	190		190
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole R0110											
Best estimate R0120											
Risk margin R0130											
Technical provisions - total R0200	14,979,363	14,370,576			54,165,507			83,515,446	9,403		9,403

Appendix 1 continued

S.22.01.21 Impact of long term guarantees and transitional measures

		Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero 1)	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	83,524,849			356,570	
Basic own funds	R0020	8,152,701			-267,507	
Eligible own funds to meet SCR	R0050	7,669,849			215,345	
SCR	R0090	3,539,612			4,177,547	
Eligible own funds to meet MCR	R0100	6,783,157			-323,208	
Minimum Capital Requirement	R0110	1,592,825			166,813	

1 This reflects the impact to set the volatility adjustment to zero; it does not reflect second order impacts, such as changes to LAC DT (which is kept constant).

Reference is made to page 20 to 21 in Section D.2. (paragraph ‘Matching and volatility adjustment, transitional measures and transitional risk free interest rate term structure’) for more information on the impact of long term guarantees and transitional measures.

Appendix 1 continued

S.23.01.01 Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	22,689	22,689			
Share premium account related to ordinary share capital	R0030	3,228,029	3,228,029			
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	2,751,309	2,751,309			
Subordinated liabilities	R0140	1,136,880		462,564	674,315	
An amount equal to the value of net deferred tax assets	R0160	1,013,793				1,013,793
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	8,152,701	6,002,028	462,564	674,315	1,013,793
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	8,152,701	6,002,028	462,564	674,315	1,013,793
Total available own funds to meet the MCR	R0510	7,138,907	6,002,028	462,564	674,315	
Total eligible own funds to meet the SCR	R0540	7,669,849	6,002,028	462,564	674,315	530,942
Total eligible own funds to meet the MCR	R0550	6,783,157	6,002,028	462,564	318,565	
SCR	R0580	3,539,612				
MCR	R0600	1,592,825				
Ratio of Eligible own funds to SCR	R0620	2.17				
Ratio of Eligible own funds to MCR	R0640	4.26				

Appendix 1 continued

Reconciliation reserve		C0060
Excess of assets over liabilities	R0700	7,047,374
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	31,553
Other basic own fund items	R0730	4,264,512
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	2,751,309
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	359,798
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**359,798**

Appendix 1 continued

S.25.02.21 Solvency Capital Requirement - for undertakings using the Standard Formula and partial Internal Model

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
1001	Total capital requirement for market risk	2,819,887	2,819,887		
1002	Total capital requirement for market risk Seperate account business	826,487	826,487		
1003	Total capital requirement for counterparty default risk	36,368	36,368		
1004	Overall Insurance Risk	2,704,787	2,704,787		
1005	Overall Business Risk	1,129,632	1,129,632		
1006	Operational risk	325,154	325,154		
8	Loss-absorbing capacity of tech. provisions if not modelled within components	-91,516	-91,516		
9	Loss absorbing capacity for deferred taxes if not modelled within components	-1,049,207	-1,049,207		

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	6,701,592
Diversification	R0060	-3,155,380
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	3,546,212
Solvency capital requirement excluding capital add-on	R0200	3,546,212
Capital add-ons already set	R0210	-6,600
Solvency capital requirement	R0220	3,539,612
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	-91,516
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	-1,049,207
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix 1 continued

S.28.01.01 Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

		C0010
MCR_{NL} Result	R0010	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

		C0040
MCR_L Result	R0200	1,744,413

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	14,055,230	
Obligations with profit participation - future discretionary benefits	R0220	91,516	
Index-linked and unit-linked insurance obligations	R0230	13,361,191	
Other life (re)insurance and health (re)insurance obligations	R0240	51,346,757	
Total capital at risk for all life (re)insurance obligations	R0250		81,882,540

		C0070
Linear MCR	R0300	1,744,413
SCR	R0310	3,539,612
MCR cap	R0320	1,592,825
MCR floor	R0330	884,903
Combined MCR	R0340	1,592,825
Absolute floor of the MCR	R0350	3,700
		C0070
Minimum Capital Requirement	R0400	1,592,825

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