2018 Annual Report

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

nationale nederlanden

Annual Report contents

Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Levensverzekering Maatschappij N.V. as at 31 December 2018 was as follows:

Management Board
Composition as at 31 December 2018

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

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

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

R.F.M. (Robin) Buijs (1970)[1]

M.R. (Martijn) Hoogeweegen (1969)[1]

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

Resigned in 2018

T. (Tjeerd) Bosklopper (1975)[2]

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

Supervisory Board
Composition as at 31 December 2018

J.L. (Janet) Stuijt (1969), chair[4]

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

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

Resigned in 2018

D.E. (Dorothee) van Vredenburch (1964)[5]

1 Appointment as at 1 January 2018 by the general meeting on 18 December 2017.
2 Resignation as at 1 January 2018 by resignation letter.
3 Resignation as at 1 January 2018 by resignation letter.
4 Appointment as at 1 October 2018 by the general meeting on 28 August 2018.
5 Resignation as at 1 October 2018 by resignation letter.

NN Group and NN Leven at a glance

NN Leven is part of NN Group N.V.

NN Group

NN Group N.V. ('NN Group') is a financial services company, active in 18 countries, with a strong presence in a number of European countries and Japan. Our ambition is to be a company that truly matters in the lives of our stakeholders, for example through our values 'care, clear, commit'.

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

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. NN Group became a standalone company on 2 July 2014. Since that date, our shares are listed and traded on Euronext Amsterdam under the listing name 'NN Group' (symbol 'NN'). More information about NN Group's business model, values and performance is available on www.nn-group.com and in the NN Group Annual Report.

Integrating Delta Lloyd

In 2017, NN Group acquired Delta Lloyd Group and started integrating the activities in the Netherlands and Belgium, with the aim of creating an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our customer service, distribution and products.

In 2018, the combined company further aligned its systems and portfolios, and Delta Lloyd products and offices were rebranded to NN. In addition, the legal mergers of several NN Group and Delta Lloyd entities were completed, with Delta Lloyd Bank N.V. merging into Nationale-Nederlanden Bank N.V., Delta Lloyd Asset Management N.V. merging into NN Investment Partners B.V., and Delta Lloyd Life N.V. merging into NN Insurance Belgium N.V.

NN Group continues to aim for efficiency improvements and to maximise the potential synergies offered by the combined business. NN Group expects that these efforts will achieve total cost savings of EUR 400 million by the end of 2020. The successful integration of Delta Lloyd in the Netherlands and Belgium is one of NN Group's top priorities.

NN Leven

Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven') offers a range of group life and individual life insurance products. Its group life policies are primarily group pension products. NN Leven has three business units: Pension New Business, Pension Services and Individual Life Services. The company provides pension solutions to businesses of all sizes. It offers insured and non-insured pension solutions, bundled and unbundled options and works in close cooperation with pension administrator AZL and asset manager NN Investment Partners. Its individual life insurance business primarily consists of the closed-block operation of the individual life portfolios (comprising a range of discontinued products sold prior to 2012) of NN Leven, RVS Levensverzekering N.V. ('RVS Leven') and Nationale-Nederlanden Services N.V. ('NN Services').

NN Leven has a strong position in the Dutch pension market. It is NN Group's largest business measured by the balance sheet total and the largest Dutch life insurer measured by gross premium income.

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

Legal structure NN Leven

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

On 1 January 2019, the legal merger between NN Leven and Delta Lloyd Levensverzekering N.V. ('Delta Lloyd Levensverzekering') became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity and NN Leven acquired all assets and liabilities of Delta Lloyd Levensverzekering under universal title of succession. Reference is made to Note 41 'Other events'.

Report of the Management Board

Financial Developments

Analysis of results[1]

Amounts in millions of euros	2018	2017
Investment margin	800	797
Fees and premium-based revenues	242	309
Technical margin	58	102
Operating income	1,100	1,208
Administrative expenses	311	401
DAC amortisation and trail commissions	28	34
Expenses	339	435
Operating result	761	773
Non-operating items:	1,121	1,295
of which gains/losses and impairments	965	1,020
of which revaluations	213	289
of which market and other impacts	-57	-14
Special items before tax	56	-39
Result before tax	1,938	2,029
Taxation	207	337
Net result	1,731	1,692

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

Key figures

Amounts in millions of euros	2018	2017
New sales life insurance (APE)	161	279
Value of new business (VNB)	-2	2
Total administrative expenses	311	401
NN Leven Solvency II ratio[1]	255%	217%

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

The full-year 2018 operating result of NN Leven was EUR 761 million compared with EUR 773 million last year. The decrease is driven by lower operating income and is partly compensated by lower expenses. The investment margin for full-year 2018 includes private equity dividends for a total amount of EUR 92 million, whereas the same period previous year included private equity dividends and a dividend from an indirect stake in Orange Life (formerly ING Life Korea) for a total amount of EUR 91 million. Furthermore, the move towards higher yielding assets and higher fees for interest rate guarantees and capital charges on defined benefits products helped to compensate the negative impacts from the continuing low interest rate environment. Fees and premium-based revenues decreased to EUR 242 million from EUR 309 million in 2017 due to the run-off of the individual life closed book as well as lower margins in the pension business. The technical margin for full-year 2018 decreased to EUR 58 million from EUR 102 million in the same period previous year mainly due to the impact of non-recurring items. Administrative expenses decreased to EUR 311 million compared with EUR 401 million in 2017 as a result of lower staff and IT-related expenses.

The result before tax for full-year 2018 decreased to EUR 1,938 million compared with EUR 2,029 million in the same period previous year, reflecting the lower operating result as well as lower revaluations and market and other impacts. This was partly offset by higher gains on bonds, and the divestment of a stake in Orange Life.

New sales (APE) decreased to EUR 161 million for the full-year 2018 from EUR 279 million in the same period previous year mainly driven by lower sales of defined contribution pension contracts, lower renewal volumes and more sales in BeFrank PPI which is not reported as APE. The value of new business (VNB) was EUR -2 million, compared with EUR 2 million in the same period previous year.

The Solvency II ratio of NN Leven was 255% at the end of 2018 compared with 217% at the end of 2017.

Business developments

NN Leven continued to operate in a complex economic, business and regulatory environment in 2018. Low interest rates and increasing longevity over the past years have increased employers' funding costs for pension schemes. This environment has continued to encourage a shift from defined benefit ('DB') to defined contribution ('DC') pension schemes.

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

NN Leven seeks to manage its longevity exposure within its risk appetite and is monitoring developments in the Dutch longevity risk transfer market for the Netherlands.

In 2018, NN Leven finalised the integration and the rebranding of the former Delta Lloyd term life product line, effectively re-entering the term life market under the Nationale-Nederlanden label.

In order to further strengthen the robustness and resilience of the Life companies, a plan was set up to legally merge the two Life entities NN Leven and Delta Lloyd Levensverzekering into one combined Life entity. After an extensive analysis the target date for the legal merger was set to 1 January 2019, and a formal merger approval request was prepared and submitted to De Nederlandsche Bank (DNB). DNB approved this request in December 2018. The legal merger became effective on 1 January 2019. The effectuation of the legal merger was announced in the Staatscourant on 2 January 2019.

Our strategy

Our strategy is to deliver excellent customer experience, while meeting our expense reduction ambition. We have a proven track record in achieving our expense reduction targets whilst at the same time improving our Net Promoter Score.

Our strong base gives us the opportunity to attract new business in the shifting pension market. With the merger of Delta Lloyd, NN Leven has an even stronger position in the Dutch Life and Pensions market. With a large in-force client base in Pensions and Individual life and an established product suite, NN Leven targets all segments, and is market leader in both PPI and Group Pensions DB and DC markets.

In this fast-changing market and society, we are building a company that truly matters to our stakeholders.

We see that the Group Pension new business shows an ongoing shift to capital-light insured DC and Premium Pension Institutions ((PPIs), a DC only accumulation vehicle). One of the goals of NN Leven is to be the best DC provider with a healthy financial perspective. Our strategy follows a dual approach in which the entire Dutch pension market from SMEs to corporates are covered. We are in the process of creating one insured DC proposition provided by NN Leven, which combines elements from the former DL Life and NN Life DC products. The other

Report of the Management Board Continued

proposition is provided by BeFrank PPI, which merged in 2018 with the former NN Leven PPI to become the leading PPI in the Netherlands. Despite the shift towards DC, DB remains important to some of our customers. We will continue to service these customers with our DB proposition.

We focus on improving people's financial well-being and manage the assets entrusted to us by our customers, as well as our own assets, in a responsible way. We optimise our asset portfolio to improve risk return and capital generation.

In 2018, we have set up our Strategic Leadership Agenda (SLA). This refinement of the strategy helped to get a common understanding of our preferred future and the way to get there.

As NN Leven we contribute to NN Group's strategic priorities. These are disciplined capital allocation, agile and efficient operating model, innovating the business and the insurance industry, and delivering value-added products and services.

Disciplined capital allocation

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

The basis of the capital process is the annual Long Term Forecast (LTF) process. It provides insights in the expected development of the solvency position. The impact of future changes in regulation and legislation like the level of the Ultimate Forward Rate (UFR) or corporate tax rate are taken into account in the LTF.

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

In making business decisions regarding products, investments and hedges, the consequences on the value and stability of the capital ratio plays a crucial role.

Investment decisions are based on Strategic Asset Allocation (SAA) that is based on the risk appetite and financial ambitions of NN Leven. The SAA leads to an investment plan that forms the basis for investment projection in the LTF. Actual decisions on investing are based both on the LTF and prevailing market conditions. In 2018, we updated the SAA in preparation for a merger between NN Leven and Delta Lloyd Levensverzekering. In setting the SAA, impacts on capital and solvency ratios are important considerations.

The disciplined capital process includes the possibility to widen the scope of capital measures, like with the longevity swap that was entered in 2017, or a critical look at the internal legal structuring.

In 2018, considerable time was spent on a thorough preparation for the legal merger between NN Leven and Delta Lloyd Levensverzekering as per 1 January 2019. The merger will not change the principles of the capital process. It will simplify the decision-making process, and alleviate some possible capital restrictions (for instance on the capital tiering) that exist at Delta Lloyd Levensverzekering.

Agile and efficient operating model

NN Leven strives to become an organisation that continuously learns and optimises its operating model in order to best serve our customers and stakeholders. In order to do so, NN Leven launched an Agile Transition Programme in 2018 and imbedded this transition as one of the key elements of the SLA. The key results of the programme are focused on creating a leaner, better and faster organisation with increased customer focus and employee satisfaction. The initiative includes all business lines and functions of NN Leven and is responsible for an agile mindset and the introduction of a uniform agile way of working. This transition is a multi-year programme. The first results, such as an agile training curriculum, common vocabulary and improved job descriptions were realised in 2018.

One of the key results in 2018 to improve our operating model is the integration of workforces between NN Leven and Delta Lloyd Levensverzekering. The integration enables us to optimise the current way of working and gave us the possibility to combine the best components of the two organisations.

Innovating the business and the insurance industry

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

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

Delivering value-added products and services

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

NN Leven has been very successful over the years in the DB market and the accumulation phase of the DC market. In the decumulation phase we saw room for improvement with respect to customer satisfaction and the distribution of the pension solutions. As such, in 2018 we built upon the combined strengths of NN Leven and Delta Lloyd Levensverzekering and launched our new, fixed and variable, DC decumulation product (PPU). This PPU is well received by the decumulation market and significantly strengthens our customer proposition.

We furthermore solidified our DC accumulation offerings by launching a completely integrated and renewed investment policy for our clients, helping us maintain and grow our strong position in the market

NN Leven has furthermore started several initiatives in order to support employers in making decisions about their future pension schemes. An example is the development of the human capital monitor service. With this service we are going to provide actionable insights to our business partners and employers.

Our values

At NN Leven, we want to help people secure their financial futures. To fulfil this purpose, we base our work on three core values: care, clear, commit. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. And they are brought to life through our day-to-day work.

Report of the Management Board Continued

Our values, which we published under the title NN statement of Living our Values, set the standard for conduct and provide a compass for decision-making. Every single NN employee is responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

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

In 2018, we warmly welcomed all Delta Lloyd Levensverzekering customers. The integration and rebranding were executed successfully.

NN Leven delivers continuous improvement. We learn from complaints. Customer journeys are used to adjust processes in line with customers' feedback and expectations. NN Leven measures and analyses its Net Promoter Score ('NPS') results. Over 2018 the NPS results improved again.

Pension advisors are our most important business partners. Their satisfaction with our distribution and operations is crucial to our success. In 2018, we held pension advisors feedback sessions. In an open atmosphere we received valuable feedback from approximately 160 advisors.

The 'Rapportage van het Intern Toezicht 2018' concerning the Pension Fund Governance on the so called 'rechtstreeks verzekerde regelingen' was approved in the Supervisory Board meeting on 26 March 2019. In the report it was concluded that all principles of pension fund governance were observed. The report can be found on the website of Nationale-Nederlanden. (http://www.nn.nl) under the subsection "Wie zijn wij".

Distribution

NN Leven took steps to improve product distribution by improving its distribution approach with actuarial consultancies and specialised pension advisors. Specialised pension advisors and international advisory firms played an important role in our distribution strategy. We have continued with the successful approach of co-creation, continuous alignment and dialogue with our business partners.

Our employees

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

Employees are encouraged to invest in themselves and in their employment prospects. For example, employees are given training, coaching and internships. To increase economic and job opportunities, we invest in employability, by stimulating our employees to develop and grow and offering students and graduates the opportunity to gain work experience within our company. We give clear direction about the future strategy so employees and management can anticipate upcoming changes. The integration is well under way and during this restructuring and integration process we maintained a good engagement score of managers and employees.

Our role in society

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

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

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

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

A few initiatives of NN Leven in 2018:

- Workshop innovation through diversity of thinking
- Extra jobs for people with an occupational disability 'Make equal opportunities a reality'
- Membership of WIFS ('Women in Financial Services')
- Head sponsor 'Rotterdamse Zakenvrouw 2018'
- Sponsor of and participation in 'the Rotterdam Pride walk 2018'
- Participation career coach JINC.

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

Risk management

For information regarding risk management reference is made to Note 42 'Risk management'.

Dutch Individual Life unit-linked products

In the Netherlands, unit-linked products have received negative public attention since the end of 2006. We have taken this criticism to heart, as our aim is to support our customers as best we can. NN Leven reached out to all individual customers who purchased unit linked products in the past ('activeren'). The formal process for reaching out to customers initiated by the AFM for the sector was completed by NN Leven on 31 December 2017. The AFM has recently confirmed that NN Leven has fulfilled

Report of the Management Board Continued

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

As at 31 December 2018, the portfolio of NN Leven comprised approximately 230,000 active policies. In a limited number of cases (less than 650), NN Leven has settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers and several consumer protection organisations have initiated legal proceedings against NN Leven. Reference is made to Note 36 'Legal proceedings'.

Non-financial statement

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

Conclusions and ambitions

In 2018, NN Leven has significantly reduced expenses whilst improving customer experience. The transformation of NN Leven due to the integration with Delta Lloyd Levensverzekering will continue to give an impulse to our efficiency on current processes, reduce legacy systems, reduce costs and further strengthen our customer focus.

Some of the major goals in 2019 for NN Leven will be to successfully introduce our new best of both worlds DC accumulation product NN Personal Pension Plan. Our aim is to create winning market propositions, while achieving economies of scale. We do this in close engagement with intermediaries and clients.

Corporate governance

Board composition
NN Leven aims to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). Annually, the Supervisory Board assesses the composition of the Boards. NN Leven aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. In 2018, the composition of the Supervisory Board met the above-mentioned gender balance. However, as NN Leven needs to balance several relevant selection criteria when composing the Boards, the composition of the Management Board did not meet the above-mentioned gender balance in 2018. NN Leven will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

Audit committee
NN Leven is exempt from the requirement to set up an audit committee pursuant to the Decree of 8 December 2016 (Bulletin of Acts and Decrees 2016, no. 507). NN Leven is an indirect subsidiary of NN Group. NN Group has its own Audit Committee that satisfies all the statutory requirements concerning its composition, organisation and tasks. The Supervisory Board assumes the responsibility of the Audit Committee.

More information about the Audit Committee can be found at www.nn-group.com and in the NN Group 2018 Financial Report.

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

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

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

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

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

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

The external auditor attended the meeting of the Supervisory Board on 23 March 2018.

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

Code of Conduct for Insurers
In June 2011, NN Leven signed up to the revised Code of Conduct for Insurers. The Code of Conduct is elaborated by the integration of the Governance Principles on 9 December 2015. The Code of Conduct for Insurers is a cornerstone of NN Leven's operations. The Code of Conduct for Insurers contains three core values: 'providing security', 'making it possible' and 'social responsibility'. These core values ensure that we never lose sight of the essence of what we do: adding value for our customers and society. NN Leven aims to offer security in both the short and the long term by bolstering continuity and boosting confidence. The Code of Conduct for Insurers is available on the website of the Dutch Association of Insurers (www.verzekeraars.nl).

Rotterdam, 27 March 2019

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

Consolidated balance sheet

Amounts in thousands of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2018	2017
Assets			
Cash and cash equivalents	2	243,410	200,837
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		12,148,766	12,868,777
– non-trading derivatives		2,833,188	2,660,914
– designated as at fair value through profit or loss		251,805	282,945
Available-for-sale investments	4	45,817,916	48,797,505
Loans	5	22,575,199	19,596,214
Reinsurance contracts	14	1,073,213	1,151,150
Associates and joint ventures	6	3,696,932	3,417,387
Real estate investments	7	2,281,404	2,226,793
Equipment		48	22
Intangible assets	8	3,275	7,175
Deferred acquisition costs	9	228,408	236,637
Deferred tax assets	26	4,483	
Other assets	10	2,574,141	2,531,597
Total assets		**93,732,188**	**93,977,953**
Equity			
Shareholder's equity (parent)		15,570,946	15,202,686
Minority interests		982,798	665,424
Undated subordinated loan		450,000	450,000
Total equity	11	**17,003,744**	**16,318,110**
Liabilities			
Subordinated debt	12	600,000	600,000
Other borrowed funds	13	716,533	209,939
Insurance and investment contracts	14	69,932,720	71,326,558
Financial liabilities at fair value through profit or loss:	15		
– non-trading derivatives		1,143,696	1,229,750
Deferred tax liabilities	26	1,880,977	2,001,839
Other liabilities	16	2,454,518	2,291,757
Total liabilities		**76,728,444**	**77,659,843**
Total equity and liabilities		**93,732,188**	**93,977,953**

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

Consolidated profit and loss account

Consolidated profit and loss account

For the year ended 31 December	notes		2018		2017
Gross premium income	17		2,279,322		2,289,104
Investment income	18		3,181,642		3,306,567
– gross fee and commission income		22,089		10,154	
– fee and commission expenses		-105,994		-107,539	
Net fee and commission income	20		-83,905		-97,385
Valuation results on non-trading derivatives	21		159,065		113,120
Foreign currency results and net trading income			4,524		-48,755
Share of result from associates and joint ventures	6		370,761		379,654
Other income	19		49,671		-8,063
Total income			**5,961,080**		**5,934,242**
– gross underwriting expenditure		3,304,231		3,874,312	
– investment result for risk of policyholders		339,264		-365,016	
– reinsurance recoveries		-144,339		-142,446	
Underwriting expenditure	22		3,499,156		3,366,850
Staff expenses	23		208,555		218,754
Interest expenses	24		46,949		52,733
Other operating expenses	25		189,698		196,576
Total expenses			**3,944,358**		**3,834,913**
Result before tax			2,016,722		2,099,329
Taxation	26		207,109		338,509
Net result			**1,809,613**		**1,760,820**
Net result attributable to:					
Shareholder of the parent			1,731,194		1,691,926
Minority interests			78,419		68,894
Net result			**1,809,613**		**1,760,820**

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2018		2017
Net result		**1,809,613**		**1,760,820**
Items that may be reclassified subsequently to the profit and loss account:				
– unrealised revaluations available-for-sale investments and other	-15,779		-591,545	
– realised gains/losses transferred to the profit and loss account	-840,741		-860,071	
– changes in cash flow hedge reserve	565,664		-637,728	
– deferred interest credited to policyholders	-143,318		642,642	
– exchange rate differences	-1,865		-6,092	
Total other comprehensive income		**-436,039**		**-1,452,794**
Total comprehensive income		**1,373,574**		**308,026**
Comprehensive income attributable to:				
Shareholder of the parent	1,056,200		263,994	
Minority interests	317,374		44,032	
Total comprehensive income		**1,373,574**		**308,026**

Reference is made to Note 26 'Taxation' for the disclosure on the income tax effects on each component of comprehensive income.

Consolidated statement of cash flows

Consolidated statement of cash flows

For the year ended 31 December	notes	2018	2017
Result before tax		2,016,722	2,099,329
Adjusted for:			
- depreciation		3,907	3,407
- deferred acquisition costs		8,018	7,975
- underwriting expenditure (change in insurance liabilities)		-786,360	-1,202,518
- realised results and impairments of available-for-sale investments		-1,013,880	-953,484
- other		-405,995	-571,432
Taxation paid		3,717	-176,200
Changes in:			
- non-trading derivatives		-20,431	-168,916
- other financial assets at fair value through profit or loss		-9,096	2,846
- other assets		383,857	80,136
- other liabilities		177,241	-268,683
Net cash flow from operating activities		**357,700**	**-1,147,540**
Investments and advances:			
- associates and joint ventures	6	-325,172	-750,718
- available-for-sale investments	4	-2,757,649	-2,168,344
- real estate investments	7	-117,195	-169,205
- equipment		-18	-26
- investments for risk of policyholders		-1,493,723	-1,934,979
- loans		-4,947,809	-3,566,386
- other investments			-1,500
Disposals and redemptions:			
- associates and joint ventures	6	183,624	332,178
- available-for-sale investments	4	5,243,067	4,260,309
- real estate investments	7	115,014	83,211
- equipment			12
- investments for risk of policyholders		2,035,144	4,369,577
- loans		1,963,336	3,425,285
Net cash flow from investing activities		**-101,381**	**3,879,414**
Proceeds from other borrowed funds	13	1,069,968	1,267,307
Repayments of other borrowed funds	13	-563,374	-3,035,436
Dividend paid	11	-700,000	-925,000
Coupon on undated subordinated loan		-20,340	-20,340
Net cash flow from financing activities		**-213,746**	**-2,713,469**
Net cash flow		**42,573**	**18,405**
Cash and cash equivalents at beginning of the period	2	200,837	182,432
Net cash flow		42,573	18,405
Cash and cash equivalents at end of the period		**243,410**	**200,837**

Included in Net cash flow from operating activities:

For the year ended 31 December	2018	2017
Interest received	1,901,317	1,998,740
Interest paid	-46,949	-53,162
Dividend received	612,474	402,775

Consolidated statement of changes in equity

Consolidated statement of changes in equity

	Share capital	Share premium	Reserves	Total Shareholder's equity (parent)	Minority interest	Undated subordinated loan	Total equity
Balance at 1 January 2018	**22,689**	**3,228,030**	**11,951,967**	**15,202,686**	**665,424**	**450,000**	**16,318,110**
Unrealised revaluations available-for-sale investments and other			-254,734	-254,734	238,955		-15,779
Realised gains/losses transferred to the profit and loss account			-840,741	-840,741			-840,741
Changes in cash flow hedge reserve			565,664	565,664			565,664
Deferred interest credited to policyholders			-143,318	-143,318			-143,318
Exchange rate differences			-1,865	-1,865			-1,865
Total amount recognised directly in equity (Other comprehensive income)			**-674,994**	**-674,994**	**238,955**		**-436,039**
Net result			1,731,194	1,731,194	78,419		1,809,613
Total comprehensive income			**1,056,200**	**1,056,200**	**317,374**		**1,373,574**
Changes in the composition of the group			27,315	27,315			27,315
Dividend			-700,000	-700,000			-700,000
Coupon on undated subordinated loan			-15,255	-15,255			-15,255
Balance at 31 December 2018	**22,689**	**3,228,030**	**12,320,227**	**15,570,946**	**982,798**	**450,000**	**17,003,744**

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

Notes to the Consolidated annual accounts

NN Leven is a public limited liability company (naamloze vennootschap) incorporated under Dutch law and domiciled in Rotterdam, the Netherlands. NN Leven is recorded in the Commercial Register, no. 24042211. The principal activities of NN Leven are described in 'NN Group and NN Leven at a Glance'.

1 Accounting policies

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

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

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

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

Changes in IFRS-EU effective in 2018

In 2018, no changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Leven.

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue. NN Leven's main types of income (income from insurance contracts and income from financial instruments) are not in scope of IFRS 15. The implementation of IFRS 15 as at 1 January 2018 did not impact Shareholder's equity at that date. There was also no impact on the 2017 Net result.

Upcoming changes in IFRS-EU

Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2018 and are relevant to NN Leven mainly relate to IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

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

Impairment

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

Hedge accounting

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

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment'). This Amendment addresses the issue arising from the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9 until 1 January 2021.

Notes to the Consolidated annual accounts Continued

This exemption is only available to entities whose activities are predominantly connected with insurance. In 2018, the IASB tentatively decided to extend this exemption to 1 January 2022.

NN Leven's activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of NN Leven include insurance liabilities within the scope of IFRS 4, certain investment contract liabilities and other liabilities relating to insurance entities and activities. NN Leven qualified for the temporary exemption at the reference date (31 December 2015) and continues to qualify for the temporary exemption.

NN Leven applies the temporary exemption and, therefore, NN Leven expects to implement IFRS 9 in 2022 together with IFRS 17.

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

These additional disclosures are included in Note 27 'Fair value of financial assets and liabilities' and in Note 42 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented in 2022.

IFRS 16 'Leases'
IFRS 16 'Leases' is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16 is not expected to have a significant impact on shareholder's equity and net result of NN Leven. NN Leven's lease commitments are included in Note 35 'Contingent liabilities and commitments'. Under IFRS 16, the net present value of these operating lease commitments will be recognised on the balance sheet as a 'right of use asset' under Property and equipment and a lease liability under Other liabilities.

IFRS 17 'Insurance Contracts'
IFRS 17 'Insurance Contracts' was issued in May 2017. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and DAC for all insurance companies, including NN Leven and its subsidiaries. The published but not endorsed IFRS 17 includes 1 January 2021 as the effective date. However, in 2018 the IASB tentatively decided to defer the effective date to 1 January 2022.

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

The main features of IFRS 17 are:

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

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

NN Leven will implement IFRS 17 together with IFRS 9 (see above) in 2022. NN Leven initiated an implementation project and has been performing high-level impact assessments. NN Leven expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholder's equity, net result, presentation and disclosure.

Changes in presentation
Cash collateral
As of 2018, all cash collateral amounts paid and received are presented in Other assets and Other liabilities. The relevant comparative figures for previous periods have been amended. This change impacts the classification in the Consolidated balance sheet, impacting the line items Other assets and Other liabilities, with no net impact on shareholder's equity. There was no impact on the Consolidated profit and loss account.

Notes to the Consolidated annual accounts Continued

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

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

Reference is made to Note 42 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

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

Insurance liabilities also include the impact of minimum guarantees which are contained within certain products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors.

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

The adequacy of insurance liabilities, net of DAC (the net insurance liabilities), is evaluated each reporting period. The test involves comparing the established insurance liabilities with current best estimate actuarial assumptions. The use of different assumptions in this test could lead to a different outcome.

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

Reference is made to Note 28 'Fair value of non-financial assets' for more disclosure on fair value of real estate investments at the balance sheet date.

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

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

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

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account.

Notes to the Consolidated annual accounts Continued

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

Reference is made to Note 27 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

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

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

General accounting policies

Consolidation

NN Leven comprises Nationale-Nederlanden Levensverzekering Maatschappij N.V. and all its subsidiaries. The Consolidated annual accounts of NN Leven comprise the accounts of Nationale-Nederlanden Levensverzekering Maatschappij N.V. and all entities over which NN Leven has control. NN Leven has control over an entity when NN Leven is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Leven and the entity and considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

For interests in investment entities, the existence of control is determined taking into account both NN Leven's financial interests for own risk and its role as an asset manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits of these investments (i.e. the policyholder assumes the variable returns).

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. Minority interests are initially measured at their proportionate share of the subsidiaries' identifiable net assets at the date of acquisition. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

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

A list of principal subsidiaries is included in Note 37 'Principal subsidiaries'.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Notes to the Consolidated annual accounts Continued

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

Recognition and derecognition of financial instruments

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

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

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

Fair value of financial assets and liabilities

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

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

Reference is made to Note 27 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

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

Impairments of financial assets

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

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

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 35 'Contingent liabilities and commitment' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. The manner in which NN Leven manages credit risk and determines credit risk exposures is explained in Note 42 'Risk management'.

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

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

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses carried forward where it is probable that future taxable profits will be available against which the temporary differences can be used. Unrecognised deferred tax assets are reassessed periodically and recognised to the extent that is probable that future taxable profits will be available against which they can be used. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Leven and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be used.

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

Employee benefits
Defined contribution pension plans
For defined contribution plans NN Leven pays contributions to the NN CDC Pensioenfonds on a contractual basis. NN Leven has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

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

Notes to the Consolidated annual accounts Continued

Interest income and expenses

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

Statement of cash flows

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

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

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

Accounting policies for specific items

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

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

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

Investments for risk of policyholders

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

Derivatives and hedge accounting

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

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

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

Cash flow hedges

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

Notes to the Consolidated annual accounts Continued

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

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

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

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

- Their economic characteristics and risks are not closely related to those of the host contract
- The host contract is not carried at fair value through profit or loss
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (unless the embedded derivative meets the definition of an insurance contract)

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

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

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

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

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

Associates include interests in real estate funds and private equity funds. The underlying assets of both the real estate and the private equity funds are measured at fair value through profit or loss (i.e. no revaluations in other comprehensive income). The fair value of underlying real estate in real estate funds is determined as set out below for Real estate investments. The fair value of underlying private equity investments in private equity funds is generally based on a forward-looking market approach. This approach uses a combination of company financials and quoted market multiples. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and by reference to market valuations for similar entities quoted in an active market. Valuations of private equity investments are mainly based on an 'adjusted multiple of earnings' methodology on the following basis:

- Earnings: reported earnings are adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, for run-rate adjustments to arrive at maintainable earnings. The most common measure is earnings before interest, tax, depreciation and amortisation ('EBITDA'). Earnings used are usually management forecasts for the current year, unless data from management accounts for the 12 months preceding the reporting period or the latest audited annual accounts provide a more reliable estimate of maintainable earnings,
- Earnings multiples: earnings multiples are derived from comparable listed companies or relevant market transaction multiples for companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus. Adjustments are made for differences in the relative performance in the group of comparable companies,
- Adjustments: a marketability or liquidity discount is applied based on factors such as alignment with management and other investors and NN Leven's investment rights in the deal structure.

Real estate investments (Note 7)

Real estate investments under construction are included in 'Real estate investments'. Real estate investments are held for long-term rental yields and are not occupied by NN Leven. Real estate investments are initially measured at cost, including transaction cost and are subsequently measured at fair value. Changes in the carrying value resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sales proceeds and carrying value is recognised in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent, qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Market transactions and disposals made by NN Leven are monitored as part of the validation procedures to test the valuations. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All real estate investments are appraised externally at least annually.

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

Subsequent expenditures are recognised as part of the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to NN Leven and the cost of an item can be measured reliably. All other repairs and maintenance costs are recognised immediately in the profit and loss account. Borrowing costs on real estate investments under construction are capitalised until completion.

Equipment

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

Intangible assets (Note 8)

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

Notes to the Consolidated annual accounts Continued

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

Deferred acquisition costs (Note 9)

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

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

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

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

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

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

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

Insurance and investment contracts, reinsurance contracts (Note 14)

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

In addition, for certain specific products or components thereof, NN Leven applies the option in IFRS 4 to measure (components of) insurance contracts using market consistent interest rates and other current estimates and assumptions.

Insurance contracts

Insurance policies which bear significant insurance risk and/or contain discretionary participation features are presented as insurance contracts. Insurance liabilities represent estimates of future pay-outs that will be required for insurance claims, including expenses relating to such claims. For some insurance contracts the measurement reflects current market assumptions. Unless indicated otherwise below, changes in the insurance liabilities are recognised in the profit and loss account.

Life insurance liabilities

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

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

Insurance liabilities for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders.

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

Unamortised interest rate rebates on periodic and single premium contracts are deducted from or added to the life insurance contract liabilities. Interest rate rebates granted during the year are amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

Notes to the Consolidated annual accounts Continued

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

Liabilities for life insurance for risk of policyholders
Liabilities for life insurance for risk of policyholders are generally shown at the balance sheet value of the related investments.

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

Adequacy Test
The adequacy of the insurance liabilities, net of unamortised interest rate rebates and DAC (the net insurance liabilities), is evaluated at each reporting period. The test involves comparing the established net insurance liability to a liability based on current best estimate actuarial assumptions. The best estimate reserve makes assumptions about factors such as economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends, court decisions, changes in laws, and other factors. Three key assumptions impacting the best estimate reserve are future mortality trends, expenses and future reinvestment rates. The best estimate assumption for mortality takes into account both data from the CBS mortality tables for the Dutch population and data from the insured portfolio of NN Leven. The projected expenses take into account normalised maintenance expenses (unit costs per policy) and an add-on for incidental expenses. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums, as a result (part of) the revaluation reserve in shareholder's equity is taken into account in assessing the adequacy of insurance liabilities.

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

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

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

Other liabilities (Note 16)
Provisions
Other liabilities include reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions include employee termination benefits when NN Leven is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Gross premium income (Note 17)
Premiums from insurance policies are recognised as income when due from the policyholder. Receipts under investment contracts are not recognised as gross premium income; instead deposit accounting is applied. When applying deposit accounting, the amounts contributed by policyholders are recognised as direct increases in the provision for investment contracts, not as premium income and payments are deducted directly from the provision.

Net fee and commission income (Note 20)
Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Notes to the Consolidated annual accounts Continued

2 Cash and cash equivalents

Cash and cash equivalents

	2018	2017
Cash and bank balances	238,790	195,611
Short term deposits	4,620	5,226
Cash and cash equivalents	**243,410**	**200,837**

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

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2018	2017
Investments for risk of policyholders	12,148,766	12,868,777
Non-trading derivatives	2,833,188	2,660,914
Designated as at fair value through profit or loss	251,805	282,945
Financial assets at fair value through profit or loss	**15,233,759**	**15,812,636**

Investments for risk of policyholders

	2018	2017
Equity securities	11,360,568	12,066,146
Loans and receivables	788,198	802,631
Investments for risk of policyholders	**12,148,766**	**12,868,777**

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

Non-trading derivatives

	2018	2017
Derivatives used in:		
- hedges of net investments in foreign operations	559	22
- fair value hedges		41
- cash flow hedges	2,384,953	1,984,619
Other non-trading derivatives	447,676	676,232
Non-trading derivatives	**2,833,188**	**2,660,914**

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

Designated as at fair value through profit or loss

	2018	2017
Equity securities	248,516	279,472
Other	3,289	3,473
Designated as at fair value through profit or loss	**251,805**	**282,945**

4 Available-for-sale investments

Available-for-sale investments

	2018	2017
Equity securities	4,757,462	5,303,507
Debt securities	41,060,454	43,493,998
Available-for-sale investments	**45,817,916**	**48,797,505**

The cost of the equity securities amounts to EUR 3,848 million (2017: EUR 3,810 million). The cost of the debt securities amounts to EUR 33,234 million (2017: EUR 34,594 million).

Notes to the Consolidated annual accounts Continued

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2018	2017	2018	2017	2018	2017
Available-for-sale investments - opening balance	5,303,507	5,556,953	43,493,998	46,378,523	48,797,505	51,935,476
Additions	556,642	445,344	2,201,007	1,723,000	2,757,649	2,168,344
Amortisation			-77,716	-76,491	-77,716	-76,491
Transfers and reclassifications	-100,314	-163,532			-100,314	-163,532
Changes in unrealised revaluations	-167,258	726,755	-115,929	-1,401,078	-283,187	-674,323
Impairments	-50,314	-62,396		-4,695	-50,314	-67,091
Disposals and redemptions	-786,717	-1,179,202	-4,457,096	-3,083,187	-5,243,813	-4,262,389
Exchange rate differences	1,168	-22,494	16,190	-42,075	17,358	-64,569
Changes in the composition of the group and other changes	748	2,079		1	748	2,080
Available-for-sale investments - closing balance	**4,757,462**	**5,303,507**	**41,060,454**	**43,493,998**	**45,817,916**	**48,797,505**

Transfers and reclassifications in 2018 and 2017 are a result of transfers of investments in real estate funds from available-for-sale investments to associates and joint ventures.

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

Total exposure to debt securities

	2018	2017
Available-for-sale investments	41,060,454	43,493,998
Loans	1,447,721	1,465,745
Available-for-sale investments and Loans	**42,508,175**	**44,959,743**
Total exposure to debt securities	**42,508,175**	**44,959,743**

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

Debt securities by type

	Available-for-sale-investments		Loans		Total	
	2018	2017	2018	2017	2018	2017
Government bonds	30,739,844	33,508,311			30,739,844	33,508,311
Corporate bonds	6,985,092	6,724,219			6,985,092	6,724,219
Financial institution bonds	3,329,227	3,240,285			3,329,227	3,240,285
ABS portfolio	6,291	21,183	1,447,721	1,465,745	1,454,012	1,486,928
Debt securities - Available-for-sale investments and Loans	**41,060,454**	**43,493,998**	**1,447,721**	**1,465,745**	**42,508,175**	**44,959,743**

Available-for-sale equity securities

	2018	2017
Listed	3,157,309	3,306,260
Unlisted	1,600,153	1,997,247
Available-for-sale equity securities	**4,757,462**	**5,303,507**

5 Loans

Loans

	2018	2017
Loans secured by mortgages	15,214,764	13,191,448
Unsecured loans	5,704,542	4,698,926
Asset backed securities	1,447,721	1,465,745
Deposits	216,899	218,743
Policy loans	9,360	14,473
Other	141	33,627
Loans - before loan loss provisions	**22,593,427**	**19,622,962**
Loan loss provisions	-18,228	-26,748
Loans	**22,575,199**	**19,596,214**

Notes to the Consolidated annual accounts Continued

Changes in Loans secured by mortgages

	2018	2017
Loans secured by mortgages – opening balance	13,191,448	12,648,630
Additions/ origination	3,132,857	1,951,021
Redemption	-1,104,936	-1,358,611
Amortisation	-38,846	-44,640
Transfers to/from assets/liabilities	36,370	
Impairments and write-offs	-2,129	-4,952
Loans secured by mortgages – closing balance	**15,214,764**	**13,191,448**

Changes in Loan loss provisions

	2018	2017
Loan loss provisions - opening balance	26,748	39,666
Write-offs	-3,252	-7,102
Recoveries	1,093	1,103
Increase/decrease in loan loss provisions	-6,361	-6,919
Loan loss provisions - closing balance	**18,228**	**26,748**

Loan loss provisions of EUR 9,494 thousand (2017: EUR 19,158 thousand) relate to 'Loans secured by mortgages'.

NN Leven applies an interest rate pricing system for mortgage loans based on risk-based pricing with multiple risk premium categories, whereby the interest rate for a mortgage loan is set depending on the loan-to-valuation (LTV) ratio. In the past, mortgage loans were eligible to move into another risk premium category only on the interest reset date. In the second quarter of 2018 a change to this pricing system was announced, under which a mortgage loan can move into another (lower) risk premium category during the fixed interest rate term if the LTV has decreased due to an increase of the value of the house and/or repayment of the mortgage loan. The amended pricing system will allow for the adjustment of the mortgage interest rate by moving to a lower risk premium category automatically following (partial) repayment of the loan principal, also taking into account (p)repayments that have already been made, and/or upon request following a proven revaluation of the relevant mortgaged asset. This amended pricing system represents a modification of the outstanding mortgage loans under IFRS. The related impact on the balance sheet value of outstanding mortgage loans of EUR 12 million was recognised as a charge in the profit and loss account in 2018.

6 Associates and joint ventures

Associates and joint ventures (2018)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	4	199,063	7,332,518	1,818,307	1,131,900	102,900
CBRE Dutch Office Fund FGR	28	456,272	1,883,339	248,541	333,203	48,641
CBRE Retail Property Fund Iberica L.P.	33	280,941	976,959	137,577	162,590	41,228
CBRE Dutch Retail Fund FGR	20	223,229	1,590,517	495,183	77,355	35,943
Parcom Investment Fund II B.V.	100	68,872	68,872		79,430	302
CBRE UK Property Fund PAIF	10	176,057	1,837,507		145,331	18,518
CBRE Dutch Residential Fund I FGR	10	181,989	1,803,520	14,051	279,023	28,326
CBRE Property Fund Central and Eastern Europe FGR	50	66,911	197,482	63,660	122,708	14,314
Parcom Buy Out Fund IV B.V.	100	49,551	49,695	144	65,254	1,298
Parcom Investment Fund III B.V.	100	76,338	79,685	3,347	-1,633	120
Allee center Kft	50	120,723	260,273	18,827	35,844	8,262
CBRE European Industrial Fund C.V.	19	137,930	1,057,573	349,513	126,130	28,802
Lazora S.I.I. S.A.	22	163,629	1,083,037	342,634	88,000	26,026
DPE Deutschland II B GmbH & Co KG	35	91,724	293,200	31,527	27,662	188
Fiumaranuova s.r.l.	50	101,791	238,841	34,851	21,152	8,586
Boccaccio - Closed-end Real Estate Mutual Investment Fund	50	88,878	242,300	64,544	11,923	4,487
Dutch Student and Young Professional Housing fund FGR	49	95,562	253,483	59,724	24,629	5,165
CBRE Dutch Retail Fund II FGR	10	76,088	774,293	13,413	29,487	12,915
Parcom Buy-Out Fund V CV	21	53,760	260,176	8,597	12,223	2,019
Achmea Dutch Health Care Property Fund	25	83,865	338,965		40,260	4,696
Robeco Bedrijfsleningen FGR	25	80,412	323,928		9,282	1,108
Delta Mainlog Holding GmbH & Co. KG	50	56,388	113,388	612	9,089	31
Siresa House S.L.	49	78,156	389,178	228,032	49,593	54,422
the Fizz Student Housing Fund SCS	50	78,269	223,710	65,591	7,394	6,392
Other		610,534				
Associates and joint ventures		**3,696,932**				

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

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

Notes to the Consolidated annual accounts Continued

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

Other includes EUR 417 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 193 million of receivables from associates and joint ventures. The amounts presented in the table above could differ from the individual annual accounts of the associates due to the fact that the individual amounts were brought in line with NN Leven's accounting principles.

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

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

Associates and joint ventures (2017)

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

Changes in Associates and joint ventures

	2018	2017
Associates and joint ventures - opening balance	3,417,387	2,676,562
Additions	325,172	750,718
Disposals	-183,624	-332,178
Transfer to/from Available-for-sale investments	127,425	164,124
Share in change in equity (revaluations)	54,123	-1,542
Share of results	370,761	379,654
Dividends received	-412,310	-216,955
Exchange rate differences	-2,122	-6,586
Changes in the composition of the group and other changes	120	3,590
Associated and joint ventures - closing balance	**3,696,932**	**3,417,387**

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

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

Notes to the Consolidated annual accounts Continued

7 Real estate investments

Changes in Real estate investments

	2018	2017
Real estate investments - opening balance	2,226,793	2,029,542
Additions	117,195	169,205
Disposals	-115,014	-83,211
Transfer to/from Other assets	2,324	1,055
Fair value gains/(losses)	50,360	110,287
Other changes	-254	-85
Real estate investments - closing balance	**2,281,404**	**2,226,793**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2018 is EUR 144 million (2017: EUR 155 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to real estate investments recognised in rental income for the year ended 31 December 2018 is EUR 46 million (2017: EUR 48 million).

Real estate investments by year of most recent appraisal

In percentages	2018	2017
Most recent appraisal in current year	100%	100%

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

Real estate exposure

	2018	2017
Real estate investments	2,281,404	2,226,793
Investments - available-for-sale	709,475	812,258
Associates and joint ventures	2,912,150	2,426,219
Other assets - Property obtained from foreclosures	760	760
Total Real estate exposure	**5,903,789**	**5,466,030**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure to real estate of EUR 6.5 billion (2017: EUR 6.2 billion). Reference is made to Note 42 'Risk management'.

8 Intangible assets

Changes in Intangible assets

	2018	2017
Intangible assets - opening balance	7,175	9,078
Capitalised expenses		1,500
Amortisation	-3,900	-3,400
Other changes		-3
Intangible assets - closing balance	**3,275**	**7,175**
Gross carrying value	37,243	37,243
Accumulated amortisation	-33,968	-30,068
Net carrying value	**3,275**	**7,175**

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

9 Deferred acquisition costs

Changes in Deferred acquisition costs

	2018	2017
Deferred acquisition costs - opening balance	236,637	243,481
Capitalised	19,537	20,504
Amortisation	-27,555	-28,479
Exchange rate differences	-211	1,131
Deferred acquisition costs - closing balance	**228,408**	**236,637**

The capitalised acquisition costs in 2018 and 2017 are completely related to the Czech business.

Notes to the Consolidated annual accounts Continued

10 Other assets

Other assets

	2018	2017
Insurance and reinsurance receivables	318,326	311,557
Property obtained from foreclosures	760	760
Income tax receivable	62,370	1,525
Accrued interest and rents	857,757	919,135
Other accrued assets	128,387	7,190
Cash collateral amounts paid	37,435	158,361
Other	1,169,106	1,133,069
Other assets	**2,574,141**	**2,531,597**

Other contains EUR 995 million (2017: EUR 1,077 million) of current accounts with NN Group companies.

Insurance and reinsurance receivables

	2018	2017
Receivables on account of direct insurance from:		
- policyholders	307,214	304,463
- intermediaries	3,352	4,094
Reinsurance receivables	7,760	3,000
Insurance and reinsurance receivables	**318,326**	**311,557**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 3,477 thousand as at 31 December 2018 (2017: EUR 4,285 thousand). The receivable is presented net of this allowance.

11 Equity

Total equity

	2018	2017
Share capital	22,689	22,689
Share premium	3,228,030	3,228,030
Revaluation reserve	6,485,537	7,158,666
Currency translation reserve	-55,592	-53,727
Other reserves	5,890,282	4,847,028
Shareholder's equity (parent)	**15,570,946**	**15,202,686**
Minority interests	982,798	665,424
Undated subordinated notes	450,000	450,000
Total equity	**17,003,744**	**16,318,110**

Share capital

	Shares (in number)		Ordinary shares	
	2018	2017	2018	2017
Authorised share capital	22,689,015	22,689,015	113,445	113,445
Unissued share capital	18,151,212	18,151,212	90,756	90,756
Issued share capital	**4,537,803**	**4,537,803**	**22,689**	**22,689**

Ordinary shares

All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting. The par value of ordinary shares is EUR 5. The authorised ordinary share capital of NN Leven consists of 22,689,015 shares, of which as at 31 December 2018, 4,537,803 shares have been issued and fully paid up.

Distributable reserves

NN Leven is subject to legal restrictions regarding the amount of dividends it can pay to its shareholder. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholder's equity less the issued and outstanding capital and less the reserves required by law. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

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

Notes to the Consolidated annual accounts Continued

Share premium

	2018	2017
Share premium - opening balance	3,228,030	3,228,030
Share premium - closing balance	**3,228,030**	**3,228,030**

Changes in Revaluation reserve (2018)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	3,374,703	3,783,963	7,158,666
Unrealised revaluations	-254,734		-254,734
Realised gains/losses transferred to the profit and loss account	-840,741		-840,741
Changes in cash flow hedge reserve		565,664	565,664
Deferred interest debited/credited to policyholders	-143,318		-143,318
Revaluation reserve - closing balance	**2,135,910**	**4,349,627**	**6,485,537**

Changes in Revaluation reserve (2017)

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

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

Changes in Currency translation reserve

	2018	2017
Currency translation reserves - opening balance	-53,727	-47,635
Exchange rate differences for the period	-1,865	-6,092
Currency translation reserves - closing balance	**-55,592**	**-53,727**

Changes in Other reserves (2018)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	4,211,356	635,672	4,847,028
Net result for the period	1,731,194		1,731,194
Transfer to/from Share of associates reserve	81,711	-81,711	0
Dividend	-700,000		-700,000
Coupon on undated subordinated notes	-15,255		-15,255
Other changes	27,315		27,315
Other reserves - closing balance	**5,336,321**	**553,961**	**5,890,282**

Changes in Other reserves (2017)

	Retained Earnings	Share of associates reserve	Total
Other reserves - opening balance	3,600,762	510,166	4,110,928
Net result for the period	1,691,926		1,691,926
Transfer to/from Share of associates reserve	-125,506	125,506	0
Dividend	-925,000		-925,000
Coupon on undated subordinated notes	-15,255		-15,255
Other changes	-15,571		-15,571
Other reserves - closing balance	**4,211,356**	**635,672**	**4,847,028**

In accordance with the NN Group Annual Accounts only the non-distributable reserves are recognised in the Share of associate reserve. As a consequence the results from previous years are reclassified to other reserves for both 2018 and the comparative figures.

Notes to the Consolidated annual accounts Continued

Proposed appropriation of result

The result is appropriated pursuant to article 21 of the articles of association of NN Leven, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. It is proposed to add the 2018 net result of EUR 1,731 million.

Undated subordinated loan

Interest rate	Year of Issue	Due date	Notional amount	Balance sheet value	
				2018	2017
4.520%	2014	Perpetual	450,000	450,000	450,000

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

In 2018, coupon payments on the undated subordinated notes of EUR 15 million after tax (2017: EUR 15 million after tax) have been distributed out of the Other reserves.

12 Subordinated debt

Subordinated debt

Interest rate	Year of Issue	Due date	First call date	Notional amount		Balance sheet value	
				2018	2017	2018	2017
5.600%	2014	10-Feb-44	10-Feb-24	600,000	600,000	600,000	600,000

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

13 Other borrowed funds

Other borrowed funds

	2018	2017
Other borrowed funds - opening balance	209,939	1,978,068
Additions	1,069,968	1,267,307
Disposals	-563,374	-3,035,436
Other borrowed funds - closing balance	**716,533**	**209,939**

Under note 42 Capital and liquidity management an overview of the internal borrowing facilities is disclosed.

14 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2018	2017	2018	2017	2018	2017
Non-participating life policy liabilities	4,859,945	4,475,791	54,644	58,002	4,914,589	4,533,793
Participating life policy liabilities	45,844,535	46,683,839	529,867	575,443	46,374,402	47,259,282
Liabilities for (deferred) profit sharing and rebates	5,836,004	5,973,163			5,836,004	5,973,163
Life insurance liabilities excluding liabilities for risk of policyholders	**56,540,484**	**57,132,793**	**584,511**	**633,445**	**57,124,995**	**57,766,238**
Life insurance liabilities for risk of policyholders	11,704,276	12,396,268	488,702	517,705	12,192,978	12,913,973
Life insurance liabilities	**68,244,760**	**69,529,061**	**1,073,213**	**1,151,150**	**69,317,973**	**70,680,211**
Investment contracts for risk of company	614,747	646,347			614,747	646,347
Investment contracts liabilities	**614,747**	**646,347**	**0**	**0**	**614,747**	**646,347**
Insurance and investment contracts, reinsurance contracts	**68,859,507**	**70,175,408**	**1,073,213**	**1,151,150**	**69,932,720**	**71,326,558**

The presentation of the Life insurance liabilities and Life insurance liabilities for risk of policyholders was changed to align with the related investments for risk of policyholders. An amount of EUR 288 million is presented under Life insurance liabilities for risk of policyholders. After this change in presentation the total investments for risk of policyholders equals the net (after deduction for reinsurance) Life insurance liabilities for risk of policyholders. For this reason the relevant comparative figures for 2017 have been restated for an amount of EUR 303 million.

Notes to the Consolidated annual accounts Continued

The liabilities for insurance and investment contracts are presented gross in the balance sheet as 'Insurance and investment contracts'. The related reinsurance is presented as 'Reinsurance contracts' under assets in the balance sheet.

Changes in Life insurance liabilities

	Net life insurance liabilities[1]		Net liabilities for risk of policyholders[2]		Reinsurance contracts		Life insurance liabilities	
	2018	2017	2018	2017	2018	2017	2018	2017
Life insurance liabilities - opening balance	57,132,793	57,060,695	12,396,268	14,556,942	1,151,150	1,142,223	70,680,211	72,759,860
Current years liabilities	1,428,815	1,377,950	631,635	507,317	6,058	6,675	2,066,508	1,891,942
Deferred interest credited to policyholders	-143,998	-856,549					-143,998	-856,549
Prior year liabilities:								
-benefit payments to policyholders	-3,569,266	-3,719,965	-835,454	-1,401,430	-6,639	-7,710	-4,411,359	-5,129,105
-interest accrual and changes in fair value of liabilities	1,537,475	1,927,677			1,017	1,195	1,538,492	1,928,872
-valuation changes for risk of policyholders			-339,300	365,170			-339,300	365,170
-effect of changes in other assumptions	1,422		-1,192				230	
Exchange rate differences	-2,369	25,675	-3,870	26,249	101	67	-6,138	51,991
Other changes[3]	155,612	1,317,310	-143,811	-1,657,980	-78,474	8,700	-66,673	-331,970
Life insurance liabilities - closing balance	**56,540,484**	**57,132,793**	**11,704,276**	**12,396,268**	**1,073,213**	**1,151,150**	**69,317,973**	**70,680,211**

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

Where discounting is used in the calculation of life insurance liabilities, the rate is within the range of 1.8% to 4% (2017: 1.8% to 4%).

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

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

As at 31 December 2018, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 1,081 million (2017: EUR 1,154 million).

Changes in Investment contracts

	2018	2017
Investment contracts - opening balance	646,347	693,975
- payments to contract holders	-43,119	-63,726
- interest accrual	11,519	15,710
Exchange rate differences		388
Investment contracts - closing balance	**614,747**	**646,347**

Liabilities for (deferred) profit sharing and rebates

	2018	2017
Profit sharing for policyholders	205,862	198,830
Deferred profit sharing liability (individual)	5,630,142	5,774,333
Liabilities for (deferred) profit sharing and rebates	**5,836,004**	**5,973,163**

Changes in Liabilities for (deferred) profit sharing and rebates

	2018	2017
Profit sharing for policyholders		
Liabilities for (deferred) profit sharing and rebates - opening balance	198,830	226,407
Profit sharing allocated to policyholders	-26,057	-47,381
Profit sharing dependent on business results	40,472	40,642
Other changes	-7,383	-20,838
Liabilities for (deferred) profit sharing and rebates - closing balance	**205,862**	**198,830**
Deferred profit sharing liability (individual)		
Deferred profit sharing liability (individual) - opening balance	5,774,333	6,627,772
Allocation of share in unrealised revaluations	-143,998	-856,549
Other changes	-193	3,110
Deferred profit sharing liability (individual) - closing balance	**5,630,142**	**5,774,333**

Notes to the Consolidated annual accounts Continued

15 Financial liabilities at fair value through profit or loss

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

Non trading derivatives

	2018	2017
Derivatives used in:		
- fair value hedges	492,429	326,679
- cash flow hedges	187,854	401,169
- hedges of net investments in foreign operations	84	346
Other non-trading derivatives	463,328	501,556
Non-trading derivatives	**1,143,696**	**1,229,750**

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

16 Other liabilities

Other liabilities

	2018	2017
Income tax payable		59,059
Other taxation and social security contributions	9,157	13,253
Deposits from reinsurers	994,284	1,072,742
Accrued interest	99,173	93,330
Costs payable	50,757	49,344
Amounts payable to brokers	3,360	3,923
Amounts payable to policyholders	752,252	802,364
Reorganisation provisions	3,068	9,037
Other provisions	14,551	13,545
Amounts to be settled	67,924	75,324
Cash collateral amounts received	346,764	43,831
Other	113,228	56,005
Other liabilities	**2,454,518**	**2,291,757**

Reorganisation provisions were recognised on NN Group level for the cost of workforce reductions and the integration of NN and Delta Lloyd Levensverzekering. The costs were charged to NN Leven, reference is made to Note 25 'Other operating expenses'. The total provision accounted for on NN Group level for NN and Delta Lloyd Levensverzekering as per 31 December 2018 is EUR 20 million.

Additions to the existing reorganisation provisions of EUR 5 million (2017: EUR 17 million) were recognised due to additional initiatives announced during those years. During 2018 EUR 10 million was charged to the reorganisation provisions for the cost of workforce reductions (2017: EUR 21 million).

For litigation provisions reference is made to Note 36 'Legal proceedings'.

17 Gross premium income

Premiums written – net of reinsurance

		Gross		Reinsurance		Net of reinsurance
	2018	2017	2018	2017	2018	2017
Insurance for risk of insurer	1,618,581	1,648,155	88,144	91,466	1,530,437	1,556,689
Insurance for risk of policyholders	660,741	640,949	70,996	70,037	589,745	570,912
Total	**2,279,322**	**2,289,104**	**159,140**	**161,503**	**2,120,182**	**2,127,601**

Notes to the Consolidated annual accounts Continued

Gross premium income (2018)

	Insurance for risk of insurer			Insurance for risk of policyholders		
	Gross	Reinsurance	Net of reinsurance	Gross	Reinsurance	Net of reinsurance
Regular premiums						
Individual						
– without profit sharing	212,322	39,535	172,787	203,180	67,086	136,094
– with profit sharing	340,965	46,752	294,213			
	553,287	**86,287**	**467,000**	**203,180**	**67,086**	**136,094**
Group						
– without profit sharing	63,950		63,950	366,371		366,371
– with profit sharing	388,352	1,551	386,801	36,295		36,295
	452,302	**1,551**	**450,751**	**402,666**	**0**	**402,666**
Total regular premiums	**1,005,589**	**87,838**	**917,751**	**605,846**	**67,086**	**538,760**
Single premiums						
Individual						
– without profit sharing	58,198		58,198	16,295	3,910	12,385
– with profit sharing	159,996	306	159,690			
	218,194	**306**	**217,888**	**16,295**	**3,910**	**12,385**
Group						
– without profit sharing	247,104		247,104	20,457		20,457
– with profit sharing	147,694		147,694	18,143		18,143
	394,798	**0**	**394,798**	**38,600**	**0**	**38,600**
Total Single premiums	**612,992**	**306**	**612,686**	**54,895**	**3,910**	**50,985**
Total Gross premium income	**1,618,581**	**88,144**	**1,530,437**	**660,741**	**70,996**	**589,745**

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

Gross premium income (2017)

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

Notes to the Consolidated annual accounts Continued

Geographical segmentation of gross premium income

	2018	2017
Netherlands	2,127,364	2,135,824
Other EU member states	151,958	153,280
Total	**2,279,322**	**2,289,104**

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

18 Investment income

Investment income

	2018	2017
Interest income from investments in debt securities	1,029,157	1,087,578
Interest income from loans:		
- mortgage loans	454,230	502,666
- unsecured loans	155,214	140,171
- policy loans	698	900
- other	24,935	33,631
Interest income from Investment in debt securities and loans	**1,664,234**	**1,764,946**
Realised gains/losses on disposal of available-for-sale debt securities	777,893	553,657
Impairment of available-for-sale debt securities		-4,695
Realised gains/losses and impairments of available-for-sale debt securities	**777,893**	**548,962**
Realised gains/losses on disposal of available-for-sale equity securities	285,133	489,412
Impairments of available-for-sale equity securities	-50,314	-62,396
Realised gains/losses and impairments of available-for-sale equity securities	**234,819**	**427,016**
Interest income on non-trading derivatives	149,882	155,831
Increase/decrase in loan loss provisions	6,360	6,919
Income from real estate investments	97,928	106,783
Dividend income	200,164	185,820
Change in fair value of real estate investments	50,362	110,290
Investment income	**3,181,642**	**3,306,567**

19 Other income

The result on divestments of EUR 56 million (included in Other income) reflects the recognition of an additional divestment result (before tax) related to the sale of NN Leven's former subsidiary Orange Life (formerly ING Life Korea).

20 Net fee and commission income

Net fee and commission income

	2018	2017
Asset management fees	21,434	9,848
Other	655	306
Gross fee and commission income	**22,089**	**10,154**
Asset management fees	-94,682	-106,995
Insurance brokerage and advisory fees	-11,312	-544
Fee and commission expenses	**-105,994**	**-107,539**
Net Fee and commission income	**-83,905**	**-97,385**

Notes to the Consolidated annual accounts Continued

21 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2018	2017
Change in fair value of derivatives relating to:		
- fair value hedges	-318,039	-286,126
- cash flow hedges (ineffective portion)	1,444	-4,099
- other non-trading derivatives	143,857	126,084
Net result on non-trading derivatives	**-172,738**	**-164,141**
Change in fair value of assets and liabilities (hedged items)	319,762	283,455
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	12,041	-6,194
Valuation results on non-trading derivatives	**159,065**	**113,120**

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

Valuation results on non-trading derivatives are reflected in the Consolidated statement of cash flows in the section 'Result before tax', in the line item 'Adjusted for: other'. Reference is made to Note 29 'Derivatives and hedge accounting'.

22 Underwriting expenditure

Underwriting expenditure

	2018	2017
Gross underwriting expenditure:		
- before effect of investment result for risk of policyholder	3,643,495	3,509,296
- effect of investment result for risk of policyholder	-339,264	365,016
Gross underwriting expenditure	**3,304,231**	**3,874,312**
Investment result for risk policyholders	339,264	-365,016
Reinsurance recoveries	-144,339	-142,446
Underwriting expenditure	**3,499,156**	**3,366,850**

The investment income and valuation results regarding investments for risk of policyholders is EUR -339 million (2017: EUR 365 million). This amount is recognised in 'Underwriting expenditure'. As a result it is shown together with the equal amount of related change in life insurance liabilities for risk of policyholders.

Underwriting expenditure

	2018	2017
Reinsurance and retrocession premiums	159,140	161,503
Gross benefits	4,212,538	4,550,219
Reinsurance recoveries	-144,339	-142,446
Change in life insurance liabilities	-809,433	-1,285,757
Costs of acquiring insurance business	30,605	36,689
Other underwriting expenditure	15,622	16,515
Profit sharing and rebates	35,023	30,127
Underwriting expenditure	**3,499,156**	**3,366,850**

Gross benefits

	2018	2017
Surrenders	899,235	1,107,952
Payments upon maturity	1,371,199	1,470,686
Payments upon death	213,859	221,715
Annuities and other periodic payments	1,714,096	1,734,208
Other	14,149	15,658
Gross benefits	**4,212,538**	**4,550,219**

Costs of acquiring insurance business

	2018	2017
Changes in deferred acquisitions costs	8,618	9,643
Brokerage fee	21,920	26,172
Other commissions	67	874
Costs of acquiring insurance business	**30,605**	**36,689**

Notes to the Consolidated annual accounts Continued

Profit sharing and rebates

	2018	2017
Distributions on account of interest or underwriting results	-5,446	-10,516
Bonuses added to policies[1]	40,469	40,643
Profit sharing and rebates	**35,023**	**30,127**

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

The total costs of acquiring insurance business and investment contracts amounted to EUR 31 million (2017: EUR 37 million). This includes amortisation and unlocking of DAC of EUR 28 million (2017: EUR 28 million) and the net amount of commissions paid of EUR 23 million (2017: EUR 29 million) and commissions capitalised in DAC of EUR 20 million (2017: EUR 21 million).

The total amount of commission paid and commission payable amounted to EUR 37 million (2017: EUR 41 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 23 million (2017: EUR 29 million) referred to above and commissions recognised in 'Other underwriting expenditure' of EUR 15 million (2017: EUR 12 million). Other underwriting expenditure also includes reinsurance commissions paid of EUR -0.3 million (2017: EUR -3 million).

23 Staff expenses

Staff expenses

	2018	2017
Salaries	100,295	102,948
Variable salaries	4,269	6,470
Pension costs	22,336	24,037
Social security costs	14,210	15,362
Share-based compensation arrangements	572	1,302
External staff costs	61,205	61,974
Education	2,664	2,060
Other staff costs	3,004	4,601
Staff expenses	**208,555**	**218,754**

NN Leven staff are employed by NN Insurance Personeel B.V. (NN Personeel). NN Leven is charged for its staff expenses by NN Personeel under a service level agreement. Although these costs are not paid out in the form of staff expenses by NN Leven, they do have the characteristics of staff expenses and they are therefore recognised as such. A provision for holiday entitlement and bonuses is recognised by NN Personeel. Actual costs are charged to NN Leven by NN Personeel.

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

Pension costs

Defined contribution plans

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

Number of employees

	2018	2017
Netherlands - average number of employees on full-time equivalent basis	1,561	1,553
Rest of Europe - average number of employees on full-time equivalent basis	32	180
Number of employees	**1,593**	**1,733**

Remuneration of Management Board and Supervisory Board

Reference is made to Note 40 'Key management personnel compensation'.

Share plans

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

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

Notes to the Consolidated annual accounts Continued

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

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2018	2017	2018	2017
Share awards outstanding - opening balance	25,926	34,765	29.32	25.74
Granted	19,059	20,632	36.00	31.01
Performance effect		-1,371		17.91
Vested	-23,507	-25,835	31.49	26.49
Forfeited	-70	-2,265	29.43	22.44
Share awards outstanding - closing balance	**21,408**	**25,926**	**33.05**	**29.32**

In 2018, 12,806 share awards of NN Group shares (2017: 12,148) were granted to the members of the Management Board of NN Leven, 6,253 share awards of NN Group shares (2017: 8,484) were granted to other employees of NN Leven.

As at 31 December 2018 the share awards of NN Group shares consist of 21,408 share awards (2017: 25,926) relating to equity-settled share based payment arrangements and no shares awards of cash-settled share-based payment arrangements.

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

As at 31 December 2018 total unrecognised compensation costs related to share awards amount to EUR 259 thousand (2017: EUR 178 thousand). These costs are expected to be recognised over an average period of 1.4 years (2017: 1.3 years).

24 Interest expenses

Interest expenses

	2018	2017
Interest expenses on non-trading derivatives	7,603	7,641
Other interest expenses	39,346	45,092
Interest expenses	**46,949**	**52,733**

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

In 2018, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 1,664 million and EUR 39 million respectively (2017: EUR 1,765 million and EUR 46 million respectively).

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

Total net interest income

	notes	2018	2017
Investment income	18	1,814,116	1,920,777
Interest expenses on non-trading derivatives		-7,603	-7,641
Other interest expenses		-39,346	-45,092
Total net interest income		**1,767,167**	**1,868,044**

25 Other operating expenses

Other operating expenses

	2018	2017
Depreciation of property and equipment	11	7
Amortisation of software	3,900	3,400
Computer costs	72,574	56,397
Office expenses	16,631	12,390
Travel and accommodation expenses	2,313	1,765
Advertising and public relations	8,986	5,433
External advisory fees	19,759	9,984
Addition/(releases) of provision for reorganisation and relocations	4,431	16,761
Allocated staff expenses head office support functions	23,071	26,760
Allocated staff expenses services	50,414	38,273
Other	-12,392	25,406
Other operating expenses	**189,698**	**196,576**

Other

In 2018, all the operating expenses of NN Leven and Delta Lloyd Levensverzekering were charged to NN Leven and are disclosed on the respective lines above. The actual operating expenses related to Delta Lloyd Levensverzekering of EUR 60.2 million were recharged to Delta Leven Levensverzekering. The recharge is presented on the line item 'Other' and resulted in a negative balance of EUR 12.4 million.

Notes to the Consolidated annual accounts Continued

The cost allocation to Delta Lloyd Levensverzekering was based on the 2018 budget, an analysis was subsequently performed and there was no significant difference between the budgeted allocation and actual costs.

'Other' also includes redundancy costs of EUR 25 million, recharged by NN Group to NN Leven. The provision is reported on NN Group Level.

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

Fees of auditors

Reference is made to Note 47 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit related fees. The services rendered by the auditor, in addition to the statutory audit, includes an audit in relation to reporting to regulators and a report of factual findings to external parties.

26 Taxation

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

Income tax receivable amounts to EUR 62,370 thousand (2017: EUR 57,534 thousand payable). It concerns tax receivable NN Group for the most recent quarter. Reference is made to Note 10 'Other assets' and Note 16 'Other liabilities'.

Deferred tax (2018)

	Net liability 2017	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2018[1]
Investments	2,158,798	-552,557	-1,603	-11,897	-56	1,592,685
Real estate investments	277,307		22,579	122,043		421,929
Acquisition costs	54,655		-10,206		-23	44,426
Fiscal equalisation reserve	337		-61			276
Depreciation	-10		4			-6
Insurance liabilities	-1,763,885	287,443	785,808		66	-690,568
Cash flow hedges	1,238,713	-136,402	0			1,102,311
Other provisions	-2,566		-26,010			-28,576
Receivables	-894		96		7	-791
Loans	35,369					35,369
Unused tax losses carried forward	-26,626		-612,367	1,218		-637,775
Other	30,641	-3,281	11,128	-1,257	-17	37,214
Deferred tax	**2,001,839**	**-404,797**	**169,368**	**110,107**	**-23**	**1,876,494**
Presented in the balance sheet as:						
Deferred tax liabilities	2,001,839					1,880,977
Deferred tax assets						-4,483
Deferred tax	**2,001,839**					**1,876,494**

1 Positive amounts are liabilities, negative amounts are assets

On 28 December 2018, the proposed reduction of the Dutch corporate income tax rates was enacted. This implies that the corporate tax rate in 2019 will remain 25%, but that the tax rate for 2020 will become 22.55% and for 2021 and subsequent years will become 20.5%. As a result, the deferred tax assets and liabilities of NN Leven were remeasured to the new tax rates. As most of NN Leven's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 20.5% rate that applies as of 2021. The net impact of the tax rate change was EUR 381 million (positive), of which EUR 204 million (positive), related to the revaluation reserves in equity, is recognised directly in equity and the remaining EUR 177 million (positive) is recognised in the profit and loss account.

In 2018, changes to the tax valuation of certain insurance liabilities in the Netherlands were implemented. These changes impacted the deferred tax on insurance liabilities and the (deferred tax on) tax losses carried forward. There was no impact on total deferred tax.

Notes to the Consolidated annual accounts Continued

Deferred tax (2017)

	Net liability 2016	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2017[1]
Investments	2,722,101	-541,554	519	-22,949	681	2,158,798
Real estate investments	231,746	-5,554	26,650	24,465		277,307
Acquisition costs	54,859		-324		120	54,655
Fiscal equalisation reserve	337					337
Depreciation	-210		206		-6	-10
Insurance liabilities	-1,973,546	211,588	-1,137		-790	-1,763,885
Cash flow hedges	1,454,555	-215,842	0			1,238,713
Other provisions	-3,546		991		-11	-2,566
Receivables	-803		-49		-42	-894
Loans	33,194			2,175		35,369
Unused tax losses carried forward	-29,868		341	2,901		-26,626
Other	24,673	3,211	2,430	218	109	30,641
Deferred tax	**2,513,492**	**-548,151**	**29,627**	**6,810**	**61**	**2,001,839**
Presented in the balance sheet as:						
Deferred tax liabilities	2,513,515					2,001,839
Deferred tax assets	-23					
Deferred tax	**2,513,492**					**2,001,839**

1 Positive amounts are liabilities, negative amounts are assets.

The portion of the deferred tax liabilities, that relates to REI Investment I B.V. and is not part of the fiscal unity, amounts to EUR 87,317 thousand (a liability) (2017: EUR 90,031 thousand (a liability)).

Deferred tax on unused tax losses carried forward

	2018	2017
Total unused tax losses carried forward	2,662,141	184,314
Unused tax losses carried forward not recognised as a deferred tax asset	-126,403	-84,961
Unused tax losses carried forward recognised as a deferred tax asset	**2,535,738**	**99,353**
Average tax rate	25.2%	26.8%
Deferred tax asset	**637,775**	**26,626**

Total unused tax losses carried forward analysed by term of expiration

	No deferred tax asset recognised		Deferred tax asset recognised	
	2018	2017	2018	2017
More than 1 year but less than 5 years				23,771
More than 5 years but less than 10 years			2,442,812	
Unlimited	126,403	84,961	92,926	75,582
Total	**126,403**	**84,961**	**2,535,738**	**99,353**

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

Taxation on result

	2018	2017
Current tax	37,741	308,870
Deferred tax	169,368	29,639
Taxation on result	**207,109**	**338,509**

Notes to the Consolidated annual accounts Continued

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

	2018	2017
Result before tax	2,016,722	2,099,329
Weighted average statutory tax rate	24.9%	24.9%
Weighted average statutory tax amount	**502,465**	**523,274**
Associates exemption	-92,377	-148,110
Other income not subject to tax	-11,494	-19,226
Expenses not deductible for tax purposes	764	744
Impact on deferred tax from change in tax rates	-181,683	
Adjustments to prior periods	-10,566	-18,173
Effective tax amount	**207,109**	**338,509**
Effective tax rate	**10.3%**	**16.1%**

The weighted average statutory tax rate for 2018 did not change significantly from that of 2017.

The effective tax rate in 2018 of 10.3% was lower than the weighted average statutory tax rate of 24.9% in 2018, mainly due to the impact on deferred tax from change in tax rate and tax exempt income.

Taxation on components of other comprehensive income

	2018	2017
Unrealised revaluations Available for sale investment and other	365,705	366,023
Realised gains/losses transferred to profit and loss account	185,231	172,810
Changes in cash flow hedge reserve	139,679	212,993
Deferred interest credited to policyholders	-287,443	-211,588
Income tax	**403,172**	**540,238**

27 Fair value of financial assets and liabilities

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	243,410	200,837	243,410	200,837
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	12,148,766	12,868,777	12,148,766	12,868,777
– non-trading derivatives	2,833,188	2,660,914	2,833,188	2,660,914
– designated as at fair value through profit or loss	251,805	282,945	251,805	282,945
Available-for-sale investments	45,817,916	48,797,505	45,817,916	48,797,505
Loans	23,601,174	21,247,570	22,575,199	19,596,214
Financial assets	**84,896,259**	**86,058,548**	**83,870,284**	**84,407,192**
Financial liabilities				
Subordinated debt	648,480	644,490	600,000	600,000
Other borrowed funds	708,497	201,817	716,533	209,939
Investment contracts for risk of company	628,964	686,742	614,747	646,347
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	1,143,696	1,229,750	1,143,696	1,229,750
Financial liabilities	**3,129,637**	**2,762,799**	**3,074,976**	**2,686,036**

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

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments', which is expected to become effective for NN Leven in 2022. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 is expected to become effective in 2022, the information in the table below is based on the assets held, and business models in place on, 31 December 2018.

Notes to the Consolidated annual accounts Continued

Fair value of financial assets - SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2018	2017	2018	2017	2018	2017
Cash and cash equivalents					243,410	200,837
Financial assets at fair value through profit or loss:						
– investments for risk of policyholders					12,148,766	12,868,777
– non-trading derivatives					2,833,188	2,660,914
– designated as at fair value through profit or loss					251,805	282,945
Available-for-sale investments	40,961,975	43,388,998	1,358,263	1,546,447	3,497,678	3,862,060
Loans	21,118,316	18,663,322	2,473,535	2,569,775	9,323	14,473
Financial assets	**62,080,291**	**62,052,320**	**3,831,798**	**4,116,222**	**18,984,170**	**19,890,006**

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

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

Cash and cash equivalents
Cash and cash equivalents are recognised at their nominal value which approximates the fair value.

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

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

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

Financial assets and liabilities at fair value
The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities carried at fair value (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	10,754,899	605,594	788,273	12,148,766
Non-trading derivatives	8,013	2,825,175		2,833,188
Financial assets designated as at fair value through profit or loss	139,177	112,628		251,805
Available-for-sale investments	35,146,716	9,772,223	898,977	45,817,916
Financial assets	**46,048,805**	**13,315,620**	**1,687,250**	**61,051,675**
Financial liabilities				
Non-trading derivatives	11,834	1,106,484	25,378	1,143,696
Financial liabilities	**11,834**	**1,106,484**	**25,378**	**1,143,696**

Methods applied in determining the fair value of financial assets and liabilities carried at fair value (2017)

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

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

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

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

Level 1 – (Unadjusted) Quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Leven can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

Notes to the Consolidated annual accounts Continued

Level 2 – Valuation technique supported by observable inputs

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

Level 3 – Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets (2018)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets - opening balance	803,186	163,009	1,146,468	2,112,663
Amounts recognised in the profit and loss account	-3,569		73,456	69,887
Revaluation recognised in other comprehensive income (equity)			-85,535	-85,535
Purchase			48,830	48,830
Sale	-11,344	-163,009	-7,230	-181,583
Maturity/settlement			-93,463	-93,463
Other transfers and reclassifications			-184,300	-184,300
Exchange rate differences			751	751
Level 3 Financial assets - closing balance	**788,273**	**0**	**898,977**	**1,687,250**

Transfers into Level 3 and reclassification (2018)

Reclassification in 2018 mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence. Reference is made to Note 6 'Associates and joint ventures' for more information.

Changes in Level 3 Financial assets (2017)

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

Changes in Level 3 Financial liabilities (2018)

	Non-trading derivatives
Level 3 Financial liabilities - opening balance	3,585
Amounts recognised in the profit and loss account	10,778
Purchase	11,100
Transfers out of Level 3	-85
Level 3 Financial liabilities - closing balance	**25,378**

Changes in Level 3 Financial liabilities (2017)

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

Notes to the Consolidated annual accounts Continued

Level 3 – Amounts recognised in the profit and loss account during the year (2018)

	Held at balance sheet date	Derecognised during the period	Total
Investments for risk of policyholders	-3,569		-3,569
Available-for-sale investments	-4,767	78,223	73,456
Amounts recognised in the profit and loss account during the year	**-8,336**	**78,223**	**69,887**

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

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

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2018 of EUR 61,052 million (2017: EUR 64,610 million) include an amount of EUR 1,687 million (2.8%) that is classified as Level 3 (2017: EUR 2,113 million (3.3%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

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

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

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

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

Investments for risk of policyholders

Of the EUR 1,687 million (2017: EUR 2,113 million), Level 3 investments EUR 788 million (2017: EUR 803 million) relates to investments for risk of policyholders. Net result is unaffected when reasonable possible alternative assumptions would have been used in measuring these investments.

Non-trading derivatives

Non-trading derivatives classified as 'Level 3 Financial assets' are mainly used for economic hedges ('basket option'). These derivatives classified as Level 3 amounted to nil as at 31 December 2018 (2017: EUR 163 million).

Available-for-sale investments

The remaining EUR 899 million (2017: EUR 1,146 million) relates to 'Available-for-sale investments' whose fair value is generally based on unadjusted quoted prices in inactive markets. This includes for example debt securities and shares in real estate investment funds and private equity investment funds for which the fair value is determined using quoted prices for the securities or quoted prices obtained from the asset managers of the funds. It is estimated that a 10% change in valuation of these investments would have no impact on net result but would increase or reduce 'Shareholder's equity' by EUR 90 million (2017: EUR 115 million), being approximately 0.53% (before tax) (2017: 0.7% (before tax)), of 'Total equity'.

Level 3 Financial liabilities at fair value
Non-trading derivatives

The total amount of financial liabilities classified as Level 3 at 31 December 2018 of EUR 25.3 million (2017: EUR 3.6 million) relates to non-trading derivative positions. These derivatives are used to for the longevity hedge. Reference is made to Note 29 'Derivatives and hedge accounting' for more information.

Notes to the Consolidated annual accounts Continued

EUR 25.3 million relates to longevity hedges closed by NN Leven. It is estimated that a 5% increase in mortality assumptions for these longevity hedges reduces result and equity before tax by EUR 16.3 million and a 5% decrease in mortality assumptions increases result and equity before tax by EUR 9.3 million.

Financial assets and liabilities at amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities carried at amortised cost (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	243,410			243,410
Loans		2,490,156	21,111,018	23,601,174
Financial assets	**243,410**	**2,490,156**	**21,111,018**	**23,844,584**
Financial liabilities				
Subordinated debt		648,480		648,480
Other borrowed funds		705,442	3,055	708,497
Investment contracts for risk of company			628,964	628,964
Financial liabilities	**0**	**1,353,922**	**632,019**	**1,985,941**

Methods applied in determining the fair value of financial assets and liabilities carried at amortised cost (2017)

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

28 Fair value of non-financial assets

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

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2018	2017	2018	2017
Real estate investments	2,281,404	2,226,793	2,281,404	2,226,793

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

Methods applied in determining the fair value of non-financial assets (2018)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,281,404	2,281,404

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

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

Notes to the Consolidated annual accounts Continued

Changes in Level 3 Non-financial assets

	Real estate investments	
	2018	2017
Level 3 Non-financial assets - opening balance	2,226,793	2,029,542
Purchase of assets	117,195	169,205
Sale of assets	-115,014	-83,211
Amounts recognised in the profit and loss account during the year	50,360	110,287
Changes in the composition of the group and other changes	2,070	970
Level 3 Non-financial assets - closing balance	**2,281,404**	**2,226,793**

Level 3 – Amounts recognised in the profit and loss account during the year non-financial assets (2018)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	52,547	-2,187	50,360

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

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

Real estate investments

Valuation methodology

The fair value of real estate is based on regular appraisals by independent, qualified valuers. The fair value is established using valuation methods that take into account recent comparable market transactions, capitalisation of income methods and/or discounted cash flow calculations.

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

Notes to the Consolidated annual accounts Continued

Key assumptions

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

	Fair value	Valuation technique	Current rent/m2	ERV/m2	Net initial yield (%)	Vacancy (%)	Average lease term in years
The Netherlands							
Office	124,100	DCF	257.48	329	3.5	10	7.9
Industrial	57,950	DCF	48 - 49	48 - 50	4.7 - 4.8		7.1
Germany							
Industrial	193,400	DCF	44 - 104	42 - 82	4.7 - 5.9	1.5	3.9
Retail	312,900	DCF	201 - 370	190 - 369	4.0 - 4.3	6.6	6.8
France							
Office	164,540	DCF	0 - 674	507 - 653	-0.1 - 4.4	65	0.7
Industrial	98,780	Income Capitalisation	35 - 51	34 - 55	1.7 - 6.4	3.0	4.3
Industrial	126,570	DCF	40 - 80	42 - 77	6.2 - 7.6	7.0	3.8
Spain							
Retail	279,850	DCF	192 - 265	200 - 271	5.6 - 6.9	4.1	5.2
Industrial	135,344	Income Capitalisation	24 - 85	24 - 85	2.2 - 7.2	26.4	1.5
Italy							
Retail	256,470	DCF	210 - 864	170 - 850	-8,9 - 6.7	3.5	6.5
Belgium							
Industrial	22,700	DCF	48	43	6.9		2.0
Retail	131,731	DCF	102 - 302	125 - 300	1.7 - 5.7	11.6	1.9
Denmark							
Residential	98,641	DCF	244	287	4.2	1	N.A.
Industrial	17,823	DCF	152	127	6.3		11.0
Poland							
Retail	102,100	DCF	158	166	6.8	4.1	2.9
Real estate under construction and other	158,504						
Total Real estate	**2,281,403**					**10.5**	**4.6**

Sensitivities

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

29 Derivatives and hedge accounting

Use of derivatives and hedge accounting

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

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

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

Notes to the Consolidated annual accounts Continued

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

In 2017 NN Leven entered into a longevity hedge, based on a general index of Dutch mortality. The maximum pay-out of the hedge amounts to EUR 100 million, payable after twenty years. The hedge is financed by annual premium payments to the counterparty. The longevity hedge is accounted for as derivative and has a fair value of EUR -14.6 million as per 31 December 2018 (2017: EUR -3.6 million). The hedge reduces the impact of longevity trend scenarios implying more improvement in life expectancy. The regulator approved including the effects of this specific hedge on the SCR. The purpose of the hedge is to reduce the net longevity risk.

Cash flow hedge accounting

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

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

For the year ended 31 December 2018, NN Leven recognised EUR 566 million (2017: EUR -638 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2018 is EUR 5,472 million (2017: EUR 5,045 million) gross and EUR 4,350 million (2017: EUR 3,784 million after deferred tax). This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 49 years with the largest concentrations in the range of one year to eight years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 1 million income (2017: EUR 4 million expense) which was recognised in the profit and loss account.

As at 31 December 2018, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 2,197 million (2017: EUR 1,583 million), presented in the balance sheet as EUR 2,384 million (2017: EUR 1,984 million) positive fair value under assets and EUR 187 million (2017: EUR 401 million) negative fair value under liabilities.

Included in 'Interest income' and 'Interest expenses on non-trading derivatives' is EUR 156 million (2017: EUR 156 million) and EUR 8 million (2017: EUR 8 million), respectively, relating to derivatives used in cash flow hedges.

Fair value hedge accounting

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

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

For the year ended 31 December 2018, NN Leven recognised EUR -318 million (2017: EUR -286 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 320 million (2017: EUR 283 million) fair value changes recognised on hedged items. This resulted in EUR 2 million (2017: EUR -3 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2018, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -492 million (2017: EUR -327 million), presented in the balance sheet as nil (2017: nil) positive fair value under assets and EUR 492 million (2017: EUR 327 million) negative fair value under liabilities.

Notes to the Consolidated annual accounts Continued

30 Assets by contractual maturity

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

Assets by contractual maturity (2018)

	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	243,410						243,410
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						12,148,766	12,148,766
– non-trading derivatives	662	16,924	4,798	36,405	2,774,399		2,833,188
– designated as at fair value through profit or loss				3,289		248,516	251,805
Available-for-sale investments	178,460	246,159	892,574	8,591,084	31,152,177	4,757,462	45,817,916
Loans	142,775	56,157	556,946	3,452,250	18,367,071		22,575,199
Reinsurance contracts	16,879	15,807	51,141	257,926	242,758	488,702	1,073,213
Intangible assets	91	182	819	2,183			3,275
Deferred acquisition costs	1,163	2,390	11,789	84,393	128,673		228,408
Deferred tax assets				4,483			4,483
Other assets	841,324	234,805	1,487,500	6,620	3,913	-21	2,574,141
Remaining assets (for which maturities are not applicable)[3]						5,978,384	5,978,384
Total assets	**1,424,764**	**572,424**	**3,005,567**	**12,438,633**	**52,668,991**	**23,621,809**	**93,732,188**

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

Assets by contractual maturity (2017)

	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	200,837						200,837
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						12,868,777	12,868,777
– non-trading derivatives	163,993	45,911	18,708	48,233	2,383,921	148	2,660,914
– designated as at fair value through profit or loss				3,473		279,472	282,945
Available-for-sale investments	223,481	272,509	711,824	6,992,237	35,293,947	5,303,507	48,797,505
Loans	24,390	106,063	421,674	2,962,645	16,081,442		19,596,214
Reinsurance contracts	14,475	16,503	57,413	273,374	271,680	517,705	1,151,150
Intangible assets	199	399	1,794	4,783			7,175
Deferred acquisition costs	1,262	2,731	13,926	73,593	145,124	1	236,637
Deferred tax assets							0
Other assets	888,700	213,292	1,413,207	7,619	7,581	1,198	2,531,597
Remaining assets (for which maturities are not applicable)[3]						5,644,202	5,644,202
Total assets	**1,517,337**	**657,408**	**2,638,546**	**10,365,957**	**54,183,695**	**24,615,010**	**93,977,953**

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

31 Liabilities by maturity

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

Non-financial liabilities, including insurance and investment contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 42 'Risk management' for a description on how liquidity risk is managed.

Notes to the Consolidated annual accounts Continued

Liabilities by maturity (2018)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]					600,000			600,000
Other borrowed funds			500,000	205,416	11,117			716,533
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	22,930	465,059	112,939	226,785	78,880		237,103	1,143,696
Financial liabilities	**22,930**	**465,059**	**612,939**	**432,201**	**689,997**	**0**	**237,103**	**2,460,229**
Insurance and investment contracts	519,449	468,483	1,740,185	10,166,562	44,815,662	12,222,379		69,932,720
Deferred tax liabilities			398	74,989	1,624,147	181,443		1,880,977
Other liabilities	1,316,163	95,253	76,167	179,654	329,699	457,582		2,454,518
Non-financial liabilities	**1,835,612**	**563,736**	**1,816,750**	**10,421,205**	**46,769,508**	**12,861,404**	**0**	**74,268,215**
Total liabilities	**1,858,542**	**1,028,795**	**2,429,689**	**10,853,406**	**47,459,505**	**12,861,404**	**237,103**	**76,728,444**
Coupon interest due on financial liabilities[3]	-989	-86	-1,416	-4,035				-6,526

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

Liabilities by maturity (2017)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]					600,000			600,000
Other borrowed funds			619	204,498	4,822			209,939
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	1,342	11,670	4,109	121,328	1,148,619		-57,318	1,229,750
Financial liabilities	**1,342**	**11,670**	**4,728**	**325,826**	**1,753,441**	**0**	**-57,318**	**2,039,689**
Insurance and investment contracts	366,552	591,477	2,329,429	11,790,610	43,305,534	12,942,956		71,326,558
Deferred tax liabilities					1,727,421	274,418		2,001,839
Other liabilities	963,922	179,984	226,336	181,009	268,295	472,211		2,291,757
Non-financial liabilities	**1,330,474**	**771,461**	**2,555,765**	**11,971,619**	**45,301,250**	**13,689,585**	**0**	**75,620,154**
Total liabilities	**1,331,816**	**783,131**	**2,560,493**	**12,297,445**	**47,054,691**	**13,689,585**	**-57,318**	**77,659,843**
Coupon interest due on financial liabilities[3]	-992	-54	-1,448	-6,520	168			-8,846

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

32 Assets not freely disposable

The assets not freely disposable relate primarily to investments of nil (2017: nil) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 33 'Transferred, but not derecognised financial assets'.

33 Transferred, but not derecognised financial assets

The majority of NN Leven's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending. NN Leven retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Leven is obligated to return this amount upon termination of the lending arrangement.

Notes to the Consolidated annual accounts Continued

Transfer of financial assets not qualifying for derecognition

	2018	2017
Transferred assets at carrying value		
Available-for-sale investments	10,058,773	7,021,667
Associated liabilities at carrying value		
Other borrowed funds	202,555	202,555

34 Offsetting of financial assets and liabilities

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

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2018)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**Gross financial assets**	**Gross financial liabilities offset in the balance sheet**	**Net financial assets in the balance sheet**	**Financial instruments**	**Cash and financial instruments collateral**	**Net amount**
Non-trading derivatives	Derivatives	2,832,620		2,832,620	-1,021,252	-375,966	1,435,402
Financial assets at fair value through profit or loss		**2,832,620**		**2,832,620**	**-1,021,252**	**-375,966**	**1,435,402**
Available-for-sale	Other	109,559		109,559	-39,561		69,998
Investments		**109,559**		**109,559**	**-39,561**		**69,998**
Total financial assets		**2,942,179**		**2,942,179**	**-1,060,813**	**-375,966**	**1,505,400**

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

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**Gross financial assets**	**Gross financial liabilities offset in the balance sheet**	**Net financial assets in the balance sheet**	**Financial instruments**	**Cash and financial instruments collateral**	**Net amount**
Non-trading derivatives	Derivatives	2,660,692		2,660,692	-1,033,757	-52,527	1,574,408
Financial assets at fair value through profit or loss		**2,660,692**		**2,660,692**	**-1,033,757**		**1,574,408**
Available-for-sale	Other	100,617		100,617	-34,882		65,735
Investments		**100,617**		**100,617**	**-34,882**		**65,735**
Total financial assets		**2,761,309**		**2,761,309**	**-1,068,639**	**-52,527**	**1,640,143**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2018)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**Gross financial liabilities**	**Gross financial assets offset in the balance sheet**	**Net financial liabilities in the balance sheet**	**Financial instruments**	**Cash and financial instruments collateral**	**Net amount**
Non-trading derivatives	Derivatives	1,025,074		1,025,074	-1,021,252	-3,822	
Financial liabilities at fair value through profit or loss		**1,025,074**		**1,025,074**	**-1,021,252**	**-3,822**	**0**
Other items where offsetting is applied in the balance sheet		65,004		65,004	-39,561	-25,046	397
Total financial liabilities		**1,090,078**		**1,090,078**	**-1,060,813**	**-28,868**	**397**

Notes to the Consolidated annual accounts Continued

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

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

35 Contingent liabilities and commitments

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

Contingent liabilities and commitments (2018)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	561,357	489,969	1,433,333	733,294	41,926	572,371	3,832,250
Contingent liabilities and commitments	**561,357**	**489,969**	**1,433,333**	**733,294**	**41,926**	**572,371**	**3,832,250**

Contingent liabilities and commitments (2017)

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

The commitments mainly concern mortgage offers issued, investment-related liabilities (Private Equity Investments II B.V. and REI Investment I B.V.) and future rental commitments. In addition to the items include in 'Contingent liabilities', NN Leven has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes. Of these commitments EUR 1,780 million (2017: EUR 1,013 million) (mortgages and other) concerns the parent company.

The guarantees, other than those included in 'Insurance contracts', are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows.

In November 2016, a loan agreement was signed with Nationale-Nederlanden Interfinance B.V. ('NNIF'). The facility had a notional amount of EUR 250 million. In June 2018, the terms of the loan were amended and the notional amount was increased to EUR 1,000 million. As per 31 December the outstanding notional amount is EUR 500 million.

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

Future lease commitments for operating lease contracts

	Future lease commitments - Buildings
2019	4,701
2020	4,701
2021	4,701
2022	4,701
2023	4,701
years after 2022	31,734

Tax liabilities

NN Leven, together with certain of its subsidiaries, is a part of a fiscal unity for Dutch income tax purposes. The members of the fiscal unity are jointly and severally liable for any income taxes payable by the Dutch fiscal unity. The income tax payable by NN Group at the end of 2018 amounts to EUR 1,464 (2017: EUR 28,043 receivable).

Notes to the Consolidated annual accounts Continued

36 Legal proceedings

General

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

Unit-linked products in the Netherlands

Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 and 2010, NN Leven reached agreements with consumer protection organisations to offer compensation to unit-linked policyholders. The agreements with the consumer protection organisations are not binding to policyholders, and consequently, do not prevent individual policyholders from initiating legal proceedings against NN Leven.

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

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

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

'Vereniging Consumentenbond' alleges that NN Leven failed to adequately inform policyholders on cost charges, risk premium for life insurance cover and the leverage and capital consumption effect and that NN Leven provided misleading capital projections. 'Vereniging Consumentenbond' requests the District Court in Rotterdam to order a recalculation of certain types of unit-linked insurance products and to declare that NN Leven is liable for any damage caused by a lack of information and misleading capital projections.

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

There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed.

Customers of NN Leven have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) the insurer owed the customer a duty of care which the insurer has breached, (e) the insurer failed to warn of the risk of not realising the projected policy values, (f) the policy conditions were unfair, or (g) the costs charged or the risk premium had no contractual basis. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered.

There is no assurance that further proceedings for damages based on aforementioned legal grounds or other grounds will not be brought. The timing of reaching any finality in last instance on these pending legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

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

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

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

37 Principal subsidiaries

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

Principal subsidiaries of NN Leven

		Proportion of ownership interest held by NN Leven	
Subsidiary	**Statutory place**	**2018**	**2017**
REI Investment I B.V.	The Hague, the Netherlands	84.9%	89.6%
REI Diaphane Fund FGR[1]	The Hague, the Netherlands	84.9%	
Private Equity Investments II B.V.	The Hague, the Netherlands	86.3%	86.3%
Private Equity Investments B.V.	The Hague, the Netherlands	96.6%	96.6%
Infrastructure Debt Investments B.V.	The Hague, the Netherlands	100%	100%
Korea Investment Fund B.V.	The Hague, the Netherlands	100%	100%
FI Pensions PNNLA B.V.[2]	The Hague, the Netherlands		100%
Private Debt Investments B.V.[3]	The Hague, the Netherlands	100%	100%

1 REI Diaphane Fund FGR was founded as per 28 June 2018.
2 FI Pensions PNNLA B.V. was liquidated as per 20 December 2018.
3 Mittelstand Senior Debt Investment B.V. was renamed to Private Debt Investments B.V. as per 6 March 2018.

Notes to the Consolidated annual accounts Continued

Principal subsidiaries of REI Investment I B.V.

Subsidiary	Statutory place	Proportion of ownership interest held by REI Investment I B.V. 2018	2017
REI Belgium Warande B.V.	Schiphol, the Netherlands	100%	100%
REI Belgium Puurs n.v.	Brussels, Belgium	100%	100%
REI Belgium Evere	Brussels, Belgium	100%	100%
REI Belgium Gent	Brussels, Belgium	100%	100%
REI Belgium Mechelen	Brussels, Belgium	100%	100%
Grupo Berkley Tres S.L.	Madrid, Spain	100%	100%
REI Spain Vitoria S.L.	Vitoria-Gasteiz, Spain	100%	100%
REI Vitoria Boulevard S.L.	Vitoria-Gasteiz, Spain	100%	100%
REI Spain Logistics S.L.U.	Madrid, Spain	100%	100%
REI Henares Logistics S.L.	Madrid, Spain	100%	100%
REI Madrid Logistics S.L.U.	Madrid, Spain	100%	100%
REI Denmark Copenhagen ApS	Copenhagen, Denmark	100%	100%
REI Denmark Solvgade Holding A/S	Copenhagen, Denmark	100%	100%
REI Denmark Solvgade A/S	Copenhagen, Denmark	100%	100%
REI Mariendalsvej ApS	Copenhagen, Denmark	100%	
Bodio 2 S.R.L.	Milan, Italy	100%	100%
Bodio 3 S.R.L.	Milan, Italy	100%	100%
Galleria Commerciale Limbiate S.R.L.	Milan, Italy	100%	100%
Stadtgalerie Heilbronn GmbH & Co KG	Frankfurt, Germany	95%	95%
REI Altenwerder GmbH & Co KG	Frankfurt, Germany	95%	95%
LZA III Mobi GmbH	Frankfurt, Germany	100%	100%
LZA III Altenwerder Grundstückverwaltung GmbH	Frankfurt, Germany	100%	100%
REI Kaiserkai GmbH & Co KG	Frankfurt, Germany	95%	95%
REI Germany Bergkirchen B.V.	The Hague, the Netherlands	100%	100%
REI Logistics Bergkirchen GmbH & Co KG	Frankfurt, Germany	94%	94%
REI Kaiserkai PM GmbH	Frankfurt, Germany	100%	100%
REI Falkensee GmbH & Co KG	Frankfurt, Germany	100%	100%
REI Germany Lurup Center B.V.	The Hague, the Netherlands	100%	100%
REI Germany Logistics B.V.	The Hague, the Netherlands	100%	100%
REI Germany Neu Ulm B.V.	The Hague, the Netherlands	100%	100%
INS Holding France	Paris, France	100%	100%
INS Bonneuil S.C.I.	Paris, France	100%	100%
Seratna S.C.I.	Paris, France	100%	100%
INS Investment France S.C.I.	Paris, France	100%	100%
INS II S.C.I.	Paris, France	100%	100%
INS III S.C.I.	Paris, France	100%	100%
INS Jonage S.C.I.	Paris, France	100%	100%
INS Criquebeuf S.C.I.	Paris, France	100%	100%
INS Pusignan S.C.I.	Paris, France	100%	100%
INS MER	Paris, France	100%	100%
INS Saint Priest	Paris, France	100%	100%
INS Saint-Vulbas S.C.I.	Paris, France	100%	100%
INS Statolas	Paris, France	100%	100%
REI France Logistics S.A.S.	Paris, France	100%	100%
Brie Logistique S.A.S.	Paris, France	100%	100%
Chelles S.A.S.	Paris, France	100%	100%
Les Arpajons S.A.S.	Paris, France	100%	100%
Logistique Portefeuille S.A.S.	Paris, France	100%	100%
Marolles 91 S.A.S.	Paris, France	100%	100%
France Campus Acrueil S.N.C.	Paris, France	100%	100%
France Campus Bagneux S.N.C.	Paris, France	99%	99%
France Campus Holding S.A.S.	Paris, France	100%	99%
France CAMPUS SNC 4	Paris, France	100%	
France CAMPUS SNC 5	Paris, France	100%	
France Campus Levallois S.N.C.	Paris, France	100%	100%
INS Holding Levallois S.A.S.	Paris, France	100%	100%
REI Poland Jantar sp. z o.o.	Warsaw, Poland	100%	100%
REI Netherlands B.V.	The Hague, the Netherlands	100%	100%
REI Netherlands Venlo Zonneveld B.V.	The Hague, the Netherlands	100%	100%
REI Netherlands Amstelveenseweg B.V.	The Hague, the Netherlands	100%	100%
VGI Orionweg Moerdijk B.V.	The Hague, the Netherlands	100%	100%
REI Fund Netherlands B.V.	The Hague, the Netherlands	100%	100%
Bouwfonds Nationale-Nederlanden B.V.[1]	The Hague, the Netherlands	100%	100%
Nationale-Nederlanden Intervest XII B.V.	The Hague, the Netherlands	100%	100%

1 Bouwfonds Nationale-Nederlanden B.V. ceased to exist as per 1 January 2019 as a result of a legal merger.

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

38 Structured entities

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

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

Third party managed structured entities

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

Most of the investments in debt instruments of structured entities relates to asset-backed securities (ABS) classified as loans. Reference is made to Note 5 'Loans' where the ABS portfolio is disclosed.

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

The investments in loan instruments of structured entities relate to loans secured by mortgages classified as unsecured loans that are not originated or managed by NN Leven for an amount of EUR 1,168 million (2017: 521 million).

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

39 Related parties

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

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

- Reinsurance activities through NN Re (Netherlands) N.V. ('NN Re')
- NN Insurance Personeel B.V.: reference is made to Note 23 'Staff expenses'
- Transactions with NN Group concerning the payment of taxes as NN Group heads the fiscal unity. Reference is made to Note 35 'Contingent liabilities and commitments'
- Transactions relating to the remuneration of board members. Reference is made to Note 40 'Key management personnel compensation'
- The management of financial instruments takes place via a management agreement with NN Investment Partners Holdings N.V.
- Facility services carried out by group companies
- Transactions relating the sale of the mortgage portfolios of EUR 8 million from NN Leven to Nationale-Nederlanden Bank N.V.
- The derivatives transactions are conducted mainly via NNIF. The unrealised revaluations of derivatives recognised in the result of NN Leven for the 2018 financial year amount to EUR 293 million (2017: EUR 445 million)
- Outstanding loan with NNIF of EUR 500 million. See also Note 35 'Contingent Liabilities and commitments' and Note 43 'Capital and Liquidity management'
- Cost paid by NN Leven on behalf of Delta Lloyd Levensverzekering and subsequently recharged. For a further disclosure see also Note 25 'Other operating expenses'

On 30 June 2018, the shares of both BeFrank N.V. ('BF') and BeFrank PPI N.V. ('BF PPI') were transferred from Delta Lloyd Houdstermaatschappij Verzekeringen N.V. to NN Leven. On 30 June 2018, BF PPI entered into a legal merger with Nationale-Nederlanden Premium Pension Institution B.V. ('NN PPI'). As a result of this merger, NN PPI ceased to exist and BF PPI acquired all assets and liabilities of NN PPI under universal title of succession per 1 July 2018. For this entity all asset management and other services are provided by NN Group entities on an arm's length basis. NN Leven has no financial interest in the pension schemes that are executed by BF PPI.

Reinsurance activities through NN Re

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

Given that the Czech branch reported a positive result of EUR 15.9 million (2017: EUR 21.3 million), an expense of EUR 16 million (2017: EUR 21.1 million) under the reinsurance contract is recognised in the result of NN Leven. The difference of EUR 0.1 million (2017: EUR 0.2 million) relates to interest income for NN Leven on capital made available to our Czech operations.

Notes to the Consolidated annual accounts Continued

The overall balance of outstanding reinsurance receivables from NN Re amounts to EUR 994 million (2017: EUR 1,073 million).

Income and expenses from NN Leven recharged to NN Group companies

	Parent company		Other group companies			Total
	2018	2017	2018	2017	2018	2017
Expenses			110,703	13,225	110,703	13,225
Investment income	4,056		79,402	766,104	83,458	766,104
Income and expenses from NN Leven recharged to NN Group companies	**4,056**	**0**	**190,105**	**779,329**	**194,161**	**779,329**

Income and expenses from NN Group companies recharged to NN Leven

	Parent company		Other group companies			Total
	2018	2017	2018	2017	2018	2017
Expenses	59,951	38,512	231,561	219,964	291,512	258,476
Investment income			153,418	143,336	153,418	143,336
Income and expenses from NN Group companies recharged to NN Leven	**59,951**	**38,512**	**384,979**	**363,300**	**444,930**	**401,812**

Financial assets and liabilities with related parties

	Parent company		Other group companies			Total
	2018	2017	2018	2017	2018	2017
Financial assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives			2,178,481	2,313,601	2,178,481	2,313,601
Other assets	1,112,698	1,076,069	95,050	1,017	1,207,748	1,077,086
Financial assets	**1,112,698**	**1,076,069**	**2,273,531**	**2,314,618**	**3,386,229**	**3,390,687**
Financial liabilities						
Subordinated loan	600,000	600,000			600,000	600,000
Other borrowed funds			510,921	3,538	510,921	3,538
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives			724,800	714,802	724,800	714,802
Other liabilities	34,831	2	1,038,811	1,083,612	1,073,642	1,083,614
Financial liabilities	**634,831**	**600,002**	**2,274,532**	**1,801,952**	**2,909,363**	**2,401,954**

The receivables from related parties amounts to EUR 2,172 million as at 31 December 2018 (2017: EUR 2,491 million) which is not due in one year. These amounts relate to participating interests over which significant influence can be exercised by NN Leven.

40 Key management personnel compensation

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

Management Board

	2018	2017
Fixed compensation:		
– base salary	1,860	1,792
– pension costs[1]	160	172
– individual saving allowance[1]	334	380
Variable compensation:		
– upfront cash	232	241
– upfront shares	232	241
– deferred cash	232	225
– deferred shares	232	225
Other benefits[4]	354	320
Fixed and variable compensation[2]	**3,636**	**3,596**

1 The pension costs consist of an amount of employer contribution (EUR 160 thousand) and an individual savings allowance (EUR 334 thousand, which is 27,2% of the amount of base salary above EUR 105,075).
2 Over 2017 and 2018, the Management Board was responsible for both NN Leven and Delta Lloyd Levensverzekering. Consequently 23% of the costs relate to Delta Lloyd Levensverzekering.
3 Reference is made to Composition of the Boards during 2018 on page 3.
4 In the comparative figures are the other benefits adjusted as to include social security contributions

Notes to the Consolidated annual accounts Continued

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. During 2017 new members of the Management Board were appointed and resigned due to the integration with Delta Lloyd. As per the date of integration the Management Board is responsible for both NN Leven and Delta Lloyd Levensverzekering. As per the date of appointment the Management Board members hold remunerated positions within the new combined organisation. The related remuneration costs are allocated within NN Leven and were recharged to Delta Lloyd Levensverzekering.

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

The total remuneration, as disclosed in the table above (2018: EUR 3,636 thousand), includes all variable remuneration related to the performance year 2018. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in 'Staff expenses' in 2018 and therefore included in 'Total expenses' in 2018, relating to the fixed expenses of 2018 and the vesting of variable remuneration of earlier performance years, is EUR 3,567 thousand (2017: EUR 3,060 thousand).

Remuneration policy

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

The general principles underpinning the NN Group Remuneration Framework are (amongst others) as follows:
- Enhance focus on the long term interest of NN Group and the interests of customers
- Align with company values, business strategy and risk appetite
- Promote and align risk management
- Comply with and support the spirit of the (inter)national regulations on remuneration policies
- Aim to avoid improper treatment of customers and employees
- Create a balanced compensation mix with a reduced emphasis on variable compensation
- Claw back and hold back arrangements
- Attract and retain talented personnel

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2018	2017	2018	2017	2018	2017
Management Board members[1]	909	931	4.9%	5.3%	22	22
Supervisory Board members						
Loans and advances to key management personnel	**909**	**931**			**22**	**22**

The loans and advances provided to members of the Management and Supervisory Board consist of mortgage loans. The total amount of redemptions of these mortgage loans during 2018 was EUR 22 thousand (2017: EUR 22 thousand).

41 Other events

Legal merger NN Leven and Delta Lloyd Levensverzekering

On 1 January 2019, the legal merger between NN Leven and Delta Lloyd Levensverzekering became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity and NN Leven acquired all assets and liabilities of Delta Lloyd Levensverzekering under universal title of succession.

The merger between NN Leven and Delta Lloyd Levensverzekering is between companies with the same parent ('under common control'). The ultimate parent of both entities is NN Group. The merger will be accounted for in 2019 at the book values of the assets and liabilities of Delta Lloyd Levensverzekering as included in the NN Group Consolidated annual accounts. As the merger will be accounted for at existing book values, no goodwill or new intangible assets will be recognised. There were no significant acquisition-related costs.

The expected impact of the merger in 2019 is summarised below:

Total Equity	1 January 2019
Total equity of NN Leven before merger	17,003,744
Add book value of Delta Lloyd Levensverzekering assets:	45,134,110
Less book value of Delta Lloyd Levensverzekering liabilities:	43,992,981
Total equity of NN Leven after merger	**18,144,873**

Notes to the Consolidated annual accounts Continued

Integration Aegon's Life Insurance and Pension businesses
On 15 August 2018, NN Group reached an agreement to acquire Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia for a total consideration of EUR 155 million. The transaction was closed on 8 January 2019. As part of this transaction NN Leven acquired Aegon Life Insurance Business Czech Republic (Aegon Pojišťovna, a.s., 'Aegon Czech') for an amount of EUR 54 million. The transaction was funded from existing cash resources and is not expected to have a material impact on the operating result and Solvency II ratio of NN Leven. Aegon Life Czech is expected to merge with NN Leven in 2019.

Dividend Distribution
In March 2019, NN Leven will make a dividend distribution of EUR 185 million from the Other reserves to its shareholder NN Nederland. The solvency ratio per year end 2018 has not been adjusted for this dividend payment.

Sale Orange Life
It is noted that the remaining indirect stake in Orange Life (formerly ING Life Korea) (currently accounted for as an available-for-sale equity investment at fair value with revaluations in equity) is in the process of being sold. This is expected to occur in 2019.

Notes to the Consolidated annual accounts Continued

42 Risk management

Introduction

Risk management is fundamental to insurance and investment management. Appropriate risk management enables NN Leven to meet obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of NN Leven's business: having the right functions and systems in place to manage risks is important.

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

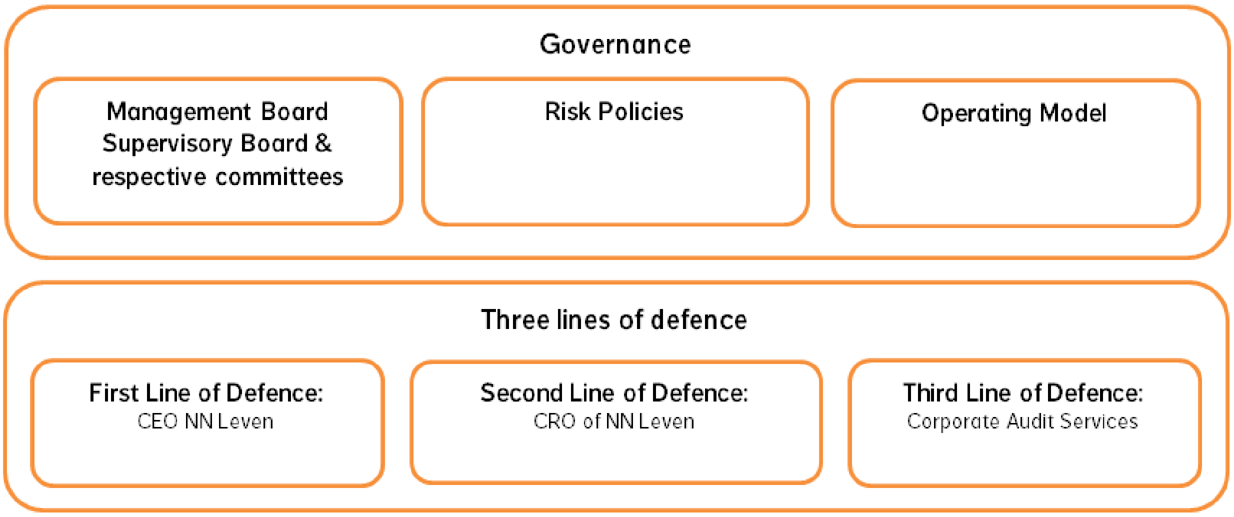
NN Leven's risk management includes its integration into NN Group's strategic planning cycle, the management information generated and a granular risk assessment. NN Leven has defined and categorised its generic inherent risk types in a mutually exclusive and collectively exhaustive risk taxonomy and subsequently expressed its appetite for these risk types in three key risk appetite statements.

NN Leven offers insurance products through a domestic branch in the Czech Republic. The activities and the related financial risks of these activities are reinsured by NN Re. NN Re deposited collateral with NN Leven to cover the credit risk. Therefore, these activities and the related risks are not included in the remainder of this Risk management paragraph. For deposits from reinsurers reference is made to Note 16 'Other liabilities'.

The integration of NN Leven and Delta Lloyd Levensverzekering was operationally effective in 2018. The legal merger between NN Leven and Delta Lloyd Levensverzekering became effective as per 1 January 2019.

Risk management structure and governance system

In order to have effective and integrated risk management, NN Leven's risk management structure, governance and the three lines of defence are implemented in the NN Leven Operating Model.



Risk Management Governance

Management Board

The Management Board is responsible for ensuring that the Company has adequate internal risk-management and control systems in place so that it is aware, in good time, of any material risks run by the Company, and that these risks can be managed properly. While the Management Board retains responsibility for NN Leven's risk management, it has entrusted the day-to-day management and the overall strategic direction of the Company, including the management structure, operation and effectiveness of NN Leven's internal risk-management and control systems, to the Asset and Liability (ALCO), Non-financial Risk (NFRC), and Model (MoC) committees.

Supervisory Board

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

Risk Policy framework

NN Leven's risk policy framework ensures that all risks are managed consistently and that NN Leven as a whole operates within set risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. Policies or any potential waivers to the policies have to be approved through the Management Board of NN Leven.

NN Leven Operating Model

NN Leven may independently perform all activities that are consistent with the strategy of NN Group and the approved (three year) business plan (the 'Business Plan') as long as they are consistent with the internal management and risk/control frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite and NN Group Values.

Notes to the Consolidated annual accounts Continued

NN Leven is expected to operate transparently and must provide all relevant information to the relevant board members and support function head(s) at Head Office. Particularly when NN Leven wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Leven's financial position and/or reputation may be materially impacted.

The Chief Executive Officer (CEO) is responsible for:

- Financial performance, as well as the business and operational activities, and as such the risk and control, in their respective areas;
- Execution in these areas of any strategies that conform to the strategic framework of NN Group
- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls
- Fulfilling the statutory responsibilities
- Maintaining a sound control framework and operating in accordance with NN Group's values
- Sustainability of NN Leven in the long term
- Sharing best practices across NN Group

The CEO is primarily responsible for the communication of risk-related topics to the NN Group Management Board and NN Leven's Supervisory Board. Regular interaction between Head Office and the NN Leven risk function takes place with respect to, inter alia, product approval, mandate approval, risk limit setting, risk reporting, Own Risk and Solvency (ORSA), policy setting and implementation monitoring, model and assumption review and validation.

Three lines of defence concept

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

- First line of defence: The CEO of NN Leven and the other Management Board members (excluding the Chief Risk Officer (CRO)) collectively make business decisions, with primary accountability for the performance, sales, operations, investments, compliance and related risks affecting the business. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customer's and NN Group's best interest.
- Second line of defence: Independent oversight and support functions with a major role for the risk management, actuarial, compliance and legal functions. The responsibilities of the oversight functions include:
    - Developing the policies, standards, guidance and charters for their specific risk and control area;
    - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinating the reporting of risks;
    - Supporting the first line of defence in making proper risk-return trade-offs; and
    - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Leven.
- Third line of defence: Corporate Audit Services (CAS) provides independent assurance on the effectiveness of NN's business and support processes, including governance, quality of risk management and quality of internal controls. They assess first line of defence activities as well as second line of defence activities.

Control and Support Functions - Second line of defence

Risk Management Function: The CRO steers an independent risk organisation which supports the first line in their decision-making, but also has sufficient countervailing power to prevent excessive risk taking. The CRO of NN Leven reports functionally to the Group CRO. The CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand the material risks to which NN Leven is exposed.

Notes to the Consolidated annual accounts Continued

Responsibilities of the risk management function include:

- Setting and monitoring compliance with NN Leven's overall risk policies
- Formulating NN Leven's risk management strategy and ensuring that it is implemented throughout NN Leven
- Supervising the operation of NN Leven's risk management and business control systems
- Testing the design and effectiveness of the control framework within NN Leven
- Reporting of NN Leven's risks, as well as the processes and internal business controls
- Making risk management decisions with regard to matters which may have an impact on the financial results of NN Leven or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management

The risk and actuarial functions support the NN Leven CRO in the execution of his duties and responsibilities. To ensure solid understanding, oversight, and support to the business, the span of control of the NN Leven CRO is strengthened by having specialised Financial Risk Management and Operational Risk Management teams to provide extra emphasis to the management of those risk types. Risk governance and the frameworks, as well as internal and external risk reporting, is supported by the Enterprise Risk Management (ERM) team.

The Model Validation Function

The Model Validation Function aims to ensure that the Cash Flow models and Risk models are fit for their intended purpose. Models and their disclosed metrics are approved by one of the two NN Leven Model Committees (Pricing and Valuation model committee, and Risk model committee) and where appropriate by the NN Group Model Committee depending on materiality. The findings of the Model Validation Function are regularly reported to the NN Leven Model Committees. These committees are responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Leven. Furthermore, the Model Validation Function carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than pre-set materiality thresholds require approval from either the Group CRO and Group Chief Financial Officer (CFO) or the NN Group Management Board.

Model validation is not a one-off assessment, but an ongoing process whereby the reliability of the model is verified at different stages during its lifecycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis based on a yearly planning discussed and agreed with model development. It is not only a verification of the mathematics and/or statistics of the model but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process encompasses a mix of developmental evidence assessment, process verification and outcome analysis. As part of Partial Internal Model Major Model Change (PIM MMC) all SCR models have been validated during 2017/2018.

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

Compliance function

To effectively manage business conduct risk, the Management Board has a Compliance function which is headed by the Head of Legal & Compliance with delegated responsibility for day-to-day management of the Compliance function to the Chief Compliance Officer. The Compliance function is positioned independently from the business it supervises. This independent positioning is warranted by the need for independent reporting, unrestricted access to senior management and structural periodic meetings with the CEO. Within NN Leven's broader risk framework, the purpose of the compliance function is to:

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

The Head of Legal & Compliance reports functionally to the CEO and hierarchically to the General Counsel & Head of Compliance of NN Group. The compliance function reports quarterly to the management and is a member of several risk committees.

Actuarial function

The primary objective of the actuarial function is to reduce the risk of unreliable and inadequate technical provisions with regard to primarily Solvency II, but also IFRS reporting. This contributes to an enhanced perception of customers, regulators and investors of the financial solidity of NN Leven.

Notes to the Consolidated annual accounts Continued

Representatives of the Actuarial function are involved in daily actuarial and risk management operations. They supply their expertise pro-actively where and when deemed relevant and when asked for. The actuarial function holder will provide an objective and independent challenge in the review of the technical provisions based on Solvency II as well as quality assurance on the underwriting policy and reinsurance arrangements. The actuarial function reports directly to the CRO and informs the Management and Supervisory Boards of its opinion on the adequacy and reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the actuarial function report.

The Actuarial function operates within the context of NN Leven's broader risk management system and has a functional reporting line to the NN Group Chief Actuary. Within this system, the role of the actuarial function is to:

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

Control and Support functions – Third line of defence

Internal Audit Function

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

CAS keeps in close contact with supervisors, regulators, and external auditor via regular meetings where current (audit) issues are discussed as well as internal and external developments and their impact on NN Leven and CAS. CAS also exchanges information like risk assessments and relevant (audit) reports.

The manager and staff of CAS are authorised to:

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

Risk Management System

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

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

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

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

NN Leven does not try to predict the future with risk management but instead pro-actively prepares for a wide range of scenarios.

Notes to the Consolidated annual accounts Continued

Risk control cycle

NN Leven's risk control cycle consists of four steps. The cycle starts with business processes that support the setting and realisation of business and risk objectives. The latter results in a risk strategy: risk appetite, policies and standards, The next steps of the cycle are to identify and assess the risks that need to be managed, followed by effective mitigation through controls and continuous monitoring effectiveness of controls, including reporting of risk levels.

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

Risk Strategy – Risk Appetite Framework

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

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

NN Leven expresses its risk appetite via three key risk appetite statements, which are then detailed further into nine sub-statements, relevant risk tolerances, controls and reporting. These three statements are intended to be aligned with NN Leven's four strategic priorities focused on creating long-term value for the company:

NN Leven's Strategic priorities	Risk Appetite Statement	Description
Disciplined capital allocation	Strong Balance Sheet (Running the business – financially)	We would like to avoid having to raise equity capital and do not want to be a forced seller of assets when markets are distressed.
Innovating our business and industry	Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Value-added products and services		
Agile and cost-efficient operating model	Sound Business Performance (Running the business – operationally)	We conduct our business with the NN Leven Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

For more details on NN Leven's strategic priorities, read more in the NN Group Annual report section 'Our Performance'.

Notes to the Consolidated annual accounts Continued

Risk Taxonomy

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

Risk Appetite Statement	Risk Type	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Leven
	Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision- making
Strong Balance Sheet (Running the business - financially)	Market Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk
	Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations
	Non-Market Risk	Risks related to the products NN Leven sells
Sound Business Performance (Running the business - operationally)	Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events.

Key Risk Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits. Risk policies and procedures provide specific risk tolerances and limits within all relevant risk categories in line with the risk appetite statements.

Risk Appetite Statement	Primary Impact Area	Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan Restricted List: to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations, NN Leven has a Restricted List in place. This list is leveraged for the risk analysis related to client acceptance for the provision of financial products and services throughout NN Leven.
Strong Balance Sheet (Running the business - financially)	Financial	SII ratio: the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). NN Group aims to capitalise NN Leven adequately at all times. To ensure adequate capitalisation, NN Leven manages its commercial capital levels (on the SII ratio) in accordance with the risk associated with the business activities. SII ratio sensitivities: NN Leven monitors the changes for both EOF and SCR under various scenarios decided by NN Group Management Board. Interest rate risk limits: NN Leven has implemented limits and tolerances for interest rate risk exposures. Concentration risk limits: in order to prevent excessive concentration risk, NN Leven has a concentration risk limit framework. The framework sets a risk appetite and concentration limits on issuer (corporate and sovereign), asset type and country of risk.
Sound Business Performance (Running the business - operationally)	Reputation Operations	Annual Loss Expectancy and materiality; Tolerances on potential yearly loss, reputation impact, financial reporting accuracy.

Notes to the Consolidated annual accounts Continued

Risk Assessment & Control

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

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Scenario analysis and contingency planning
	Strategic Risks	Scenario analysis and business planning
Strong Balance Sheet (Running the business – financially)	Market Risk	NN internal model; NACA, ALM studies, SAA, limit structure, Derivatives
	Counterparty Default Risk	NN internal model; limit structure
	Non-Market Risk	NN internal model; PARP, limit structure, reinsurance
Sound Business Performance (Running the business – operationally)	Non-Financial Risk	Risk footprints; business, assurance and key controls, control testing, incident management

Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is management's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment (ORSA)

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

Product Approval and Review Process (PARP)

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

New asset class approval (NACA) and investment mandate process

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

Non-financial risks

Business conduct, operations and continuity & security risks and related second order potential reputation impact are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). NFRs are identified, assessed, mitigated, monitored and reported in the overall risk-control cycle within NN Leven. Key NFRs are included into the quarterly risk reporting.

Responsible Investment Framework policy and restricted list

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

Notes to the Consolidated annual accounts Continued

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

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

Risk reporting
On a quarterly basis, the Management Board and the Supervisory Board of NN Leven are presented with an Own Funds – Solvency Capital Requirement (OF/SCR) Report and an Enterprise Risk Management Report. The first report aims to provide an overview of the quarterly Solvency II capital position and development. The latter report is to provide one consistent, holistic overview of the risks of NN Leven. It focuses on comparing current risk levels to our risk appetite and aims to encourage forward looking risk management. It builds on the following quarterly reports:
- Risk reports (e.g. Interest rate risk report, Insurance and (Non-) Financial Risk report)
- Liquidity report
- Own Funds/SCR report

In the risk reporting process NN Leven also reports the Solvency II ratio sensitivities assessing the changes in various scenarios for both EOF and SCR. The size and type of the shocks applied for each sensitivity is decided by the Group Management Board.

Solvency II Own Funds and SCR reporting is the NN Leven equivalent to the Value at Risk. Solvency II ratio sensitives are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7.

Recovery planning
NN Leven has determined a set of measures for early detection of, and response to a financial or non-financial crisis should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis. The Management Board is responsible for the Recovery Plan and the update of the report is performed by the first line of defence.

Risk profile
Internal Model
NN Leven developed an internal economic capital model in the early 2000s and has used the model since then to support risk management and business decisions. In preparation for Solvency II, NN Leven upgraded the model and, in December 2015, received DNB approval to use its PIM for calculating SCR under Solvency II. On 5 December 2018 NN Leven received approval from DNB to expand its Partial Internal Model (PIM) under Solvency II to include Delta Lloyd Levensverzekering.

The choice for a PIM is based on the conviction that an internal model better reflects the risk profile of NN Leven and has additional benefits for risk management purposes:

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

The SCR constitutes a risk-based capital buffer which is calculated based on actual risks on the balance sheet. Under Solvency II, the SCR is defined as the loss in basic Own Funds resulting from a 1-in-200 year adverse event over a one-year period. The internal risk capital framework is a combination of internal model and standard formula components. The largest component uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position for reporting and Group consolidation purposes. The capital requirement for operational risk is based on the standard formula approach.

Major model change

The internal model expansion was defined as a major model change, extensive governance and project structure were implemented to ensure successful delivery of PIM. The programme's main objectives were to develop a PIM for NN Leven that ensures appropriate risk measurement and management for NN Leven and Delta Lloyd Levensverzekering as well as the combined entity and that addresses the key DNB and Model Validation feedback that became available since the initial model approval in 2015.

Bringing Delta Lloyd Levensverzekering into the approved PIM is a significant step towards the successful integration of Delta Lloyd Levensverzekering into NN Leven which enhances risk management. Compared to the original model, the structure of the updated internal model has not changed materially. The key achievements of the major model change are:

- Delta Lloyd asset and liability information brought into NN systems
- Recalibrations and model improvements to all internal model components
- All risk models internally revalidated and brought up to date with Model Validation /CAS/DNB/Model Validation standards
- Specific features of NN Leven risk modelling and governance (including data quality, risk management approach and controls) integrated within Delta Lloyd Levensverzekering

The internal model expansion is based on a comprehensive assessment of the risk profiles, portfolios and existing models of NN Leven and Delta Lloyd Levensverzekering, which demonstrated broad alignment in terms of risk characteristics. As such, the NN Leven model was deemed to be appropriate for Delta Lloyd Levensverzekering, with minor methodological updates, where necessary, to ensure the model reflects the latest market data, relevant DNB and Model Validation feedback and the current risk profile of the combined entity of NN Leven and Delta Lloyd Levensverzekering. As part of the PIM MMC all risk models in scope were revalidated prior to DNB submission. In December 2018, DNB approved the use of the PIM for regulatory reporting.

Assumptions and limitations

Risk-free rate and volatility adjustment:

The assumptions regarding the underlying risk-free curve are crucial in discounting future cash flows when calculating the market values of assets and liabilities. For liabilities, NN Leven applies the methodology provided by EIOPA for the risk-free rate including the credit risk adjustment (CRA) and the ultimate forward rate (UFR). Where approved by the regulator, the risk-free rate is adjusted with the Volatility Adjustment (VOLA) for the calculation of Own Funds.

Valuation assumptions – replicating portfolios:

NN Leven uses replicating portfolio techniques to represent the product-related options and guarantees by means of standard financial instruments. In the risk calculations the replications are used to determine and revalue insurance liabilities under a large number of Monte Carlo scenarios.

Diversification and correlation assumptions:

As for any integrated financial services provider offering variety of products across different business segments, diversification is key to NN Leven's business model. The resulting diversification reflects the fact that not all potential worst-case losses are likely to materialise at the same time. The internal model takes this correlation effects into account when aggregating results at NN Leven risk categories.

Where possible, correlation parameters are derived from statistical analysis based on historical data. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by expert judgement in a well-defined and controlled process. Based on these correlations, industry-standard approaches such as Gaussian copula or VaR–CoVaR are used to determine the dependency structure of quantifiable risks.

Model limitations:

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

Partly as a result of the granular modelling approach and wide variety of NN Leven's assets and liabilities, the internal model is more complex than the standard formula.

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

Non-quantifiable risks such as strategic, reputational and model risks, are managed through qualitative risk assessments to ensure that these are sufficiently covered by the internal model in line with Solvency II requirements, these are managed through qualitative risk assessments and do not lead to a capital requirement. In addition, and as part of the ORSA, NN Leven holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions required.

Notes to the Consolidated annual accounts Continued

Solvency II ratio of NN Leven

The following table shows the NN Leven Solvency II ratio as at 31 December 2018 and 2017 respectively.

	2018	2017
Eligible Own Funds (EOF)	8,744	7,670
Solvency Capital Requirement (SCR)	3,430	3,540
Solvency II ratio (EOF/SCR)	255%	217%

Solvency Capital Requirement based on the Partial Internal Model

The SCR constitutes a risk based capital buffer, which is calculated based on actual risks on the balance sheet. Under Solvency II the SCR is defined as the loss in basic Own Funds resulting from a 1-in-200 year adverse event over a one-year period. In 2017, the old Partial Internal Model (PIM) has been used and in 2018, the Partial Internal Model (PIM) MMC has been used to derive the below table.

The following table shows the NN Leven SCR as at 31 December 2018 and 2017 respectively.

	2018	2017
Market risk	2,215	2,663
Counterparty default risk	74	36
Non-market risk	3,000	3,097
Diversification market – non-market risks	-1,298	-1,434
Total BSCR	**3,991**	**4,362**
Operational risk	310	325
Other	-54	-98
Solvency II SCR	**4,247**	**4,589**
LACDT	-817	-1,049
Total SCR	**3,430**	**3,540**

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2018 are presented in detail below.

The loss-absorbing capacity of deferred taxes (LACDT) benefit decreased by EUR 232 million primarily due to the lower corporate tax rates, reference is made to Note 26 'Taxation' in the annual accounts.

In the above table, 'Other' includes loss-absorbing capacity of technical provisions (LACTP) and some minor non-modelled risks including those required by the regulator.

Main types of risks

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

Market, counterparty default and liquidity risk

- Market risk: the risk of potential losses due to adverse movements in financial market variables. Market risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk; (v) foreign exchange risk; (vi) inflation risk; (vii) basis risk; and (viii) concentration risk.
- Counterparty default risk: the risk of potential losses due to unexpected default or deterioration in the credit rating of NN Leven's counterparties and debtors
- Liquidity risk: the risk that NN Leven does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. This risk is not part of the SCR PIM.

Market risk

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

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

Notes to the Consolidated annual accounts Continued

Market risk capital requirements

	2018	2017
Interest rate risk	1,992	1,605
Equity risk	1,414	1,438
Spread risk	2,021	2,026
Real estate risk	922	914
FX risk	220	218
Inflation risk	44	51
Basis risk	51	27
Concentration risk		
Diversification market risk	-4,449	-3,616
Market risk	**2,215**	**2,663**

The table below sets out NN Leven's asset class values as at 31 December 2018 and 2017. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded due to classification and valuation differences to reflect a risk management view. In 2018, the total decrease of the market risk was EUR 448 million. The main driver was the increased diversification benefit as a result of the updated market risk correlation based on risk drivers for the combined NN and Delta Lloyd entity (PIM MMC update). Furthermore, the increase of interest rate risk contributed to more diversification benefit.

Investment assets

	Market value 2018	% of total 2018	Market value 2017	% of total 2017
Fixed income	**63,015**	**86%**	**62,334**	**85%**
Government bonds and loans	31,421	43%	33,866	46%
Financial bonds and Loans[2]	2,816	4%	4,170	5%
Corporate bonds and loans[1]	10,405	14%	9,448	14%
Asset-backed securities	1,549	2%	1,620	2%
Mortgages[3,4,5]	16,513	23%	13,172	18%
Other retail loans	311	0%	58	0%
Non-Fixed income	**10,244**	**14%**	**11,649**	**15%**
Common & Preferred Stock	2,764	4%	2,888	4%
Private equity[6]	590	1%	836	1%
Real estate[7]	5,522	8%	6,188	8%
Mutual funds (money market funds excluded)	1,368	2%	1,737	2%
Money market instruments (money market funds included)[8]	**95**	**0%**	**148**	**0%**
Total investments[9]	**73,354**	**100%**	**74,131**	**100%**

1 CRE loans have been reclassified from Financial to Corporates this year.
2 For 2018 WUV and SVH loans are specified as mortgages.
3 Mortgages are valued at book value. In 2017 mortgages were valued at amortised cost.
4 Mortgage value from consolidated IFRS balance sheet differs from the value in current table due to the differences in Valuation of mortgages and exclusion of IVR portfolio.
5 For both 2018 and 2017 the mortgage values above include mortgages underlying the mortgage structure vehicles.
6 In 2018 the participation in BeFrank (NN PPI) is specified as intercompany.
7 2018 real estate data excludes the real estate forward commitments, since NN Leven has no price risk related to them. 2017 real estate data includes the forward commitments.
8 Money market mutual funds are included in the Money market instrument.
9 Intercompany positions are not taken into account as these do not materially affect the risk position of the portfolio.

As presented in the table, several key developments in the portfolio have occurred over the course of 2018. NN Leven continued to shift investments from low yielding asset classes to asset classes with an attractive risk return profile. In 2018, EUR 552 million of CRE loans shifted from Financial bonds and loans to Corporate bonds and loans.

During 2018 NN Leven sold a portion of the government bonds and loans exposure in favour of additional investments in corporate bonds and loans to conform to the strategic asset allocation (SAA). The increase in mortgages is due to additional investments to also conform to the SAA. Other retail loans increased due to the inclusion of policy holder debtors, which was not incorporated in the 2017 Annual Report.

Equity risk

Equity risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the level of the equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options, that are sensitive to equity prices.

Risk profile

The table below sets out the market value of NN Leven's equity assets as at 31 December 2018 and 2017.

Equity assets

	2018	2017
Common & Preferred stock	2,764	2,888
Private equity	590	836
Mutual funds (money market funds excluded)	1,368	1,737
Total	**4,722**	**5,461**

Notes to the Consolidated annual accounts Continued

The decrease in equity exposure is driven by the decrease of the stock markets, redemptions in private equity funds and a switch from fund investments to discretionary investments.

Risk mitigation

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

Risk measurement

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

Real estate risk

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

Risk profile

Real estate assets are presented excluding forward commitments. NN Leven's real estate exposure decreased slightly from EUR 5,512 million as at 31 December 2017 to EUR 5,522 million as at 31 December 2018 (2018 EUR 6,495 million and 2017 EUR 6,188 million with forward commitments). The amount is adjusted with the participation of 84.87% in REI Investment B.V.

NN Leven has two different categories of real estate: (i) investments in real estate funds or real estate directly owned and (ii) investments in buildings occupied by NN Leven. Several of the real estate funds owned by NN Leven include leverage, and therefore the actual real estate exposure is larger than NN Leven's actual real estate assets.

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

The table below sets out NN Leven's real estate exposure by sector type excluding leverage as at 31 December 2018 and 2017, respectively. Real estate is valued at fair value. Fair value revaluations for 87% of the real estate portfolio directly affect the IFRS result before tax.

Real estate assets by sector[1]

	Revalued through P&L 2018	Not revalued through P&L 2018	Revalued through P&L 2017	Not revalued through P&L 2017
Residential	37%	3%	19%	4%
Office	9%	1%	11%	1%
Retail	26%	3%	36%	4%
Industrial	13%	5%	15%	7%
Other	2%	1%	2%	1%
Total	**87%**	**13%**	**83%**	**17%**

1 The real estate data exclude the real estate forward commitments, since NN Leven has no price risk related to them.

NN Leven is investing more in the low volatile residential sector. There is less allocation towards the retail sector because the retail sector has become less attractive.

Risk mitigation

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

Risk measurement

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

Interest rate risk

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

Exposure to interest rate risk arises from direct or indirect asset or liability positions that are sensitive to changes in the risk-free interest rate curve. NN Leven's SCR based on PIM does not include the change in value of the risk margin due to interest rate shocks. The market movements include higher VOLA, lower risk-free interest curve and credit spreads. It should be noted that the increase of the interest rate risk SCR also contributes to the increase of the diversification across market risks.

Notes to the Consolidated annual accounts Continued

Risk profile
As shown in the 'Market risk capital requirements' table, the interest rate risk SCR of NN Leven based on PIM has increased from EUR 1,605 million as at 31 December 2017 to EUR 1,992 million as at 31 December 2018. The increase is caused by the major model change and new investments in loans and mortgages in line with the overall strategy and SAA. This is partly offset by the sale of governments bonds and swap unwinding. The decline of the interest rates also contributed to the increase.

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

Risk measurement
In discounting the EUR dominated asset cash flows, NN Leven uses the market swap curve. For the purpose of discounting EUR dominated liability cash flows, NN Leven uses a market swap curve less credit risk adjustment plus the VOLA. The VOLA is treated as part of the credit spread risk. In line with Solvency II regulations, NN Leven extrapolates the EUR swap curve from the 20 year last liquid point onwards to the UFR. The sensitivity of SCR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

At the end of 2018, the interest rate curve was slightly lower compared with the end of 2017 and the UFR level decreased from 4.2% to 4.05%. This change had a negative effect on the Solvency II ratio of NN Leven, in line with the interest parallel shock -50bps sensitivity result.

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

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

At the end of 2018, the UFR for EUR under Solvency II was set at 4.05%. 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 3.60%, but annual changes to the UFR will not be higher than 15 basis points. Therefore the UFR for EUR is expected to decrease from 4.05% to 3.90% on 1 January 2019. The UFR downward adjustment scenario provides the impact in Own Funds and SCR using the applicable UFR for 2019 for each currency. The other components of the basic risk-free interest rate curve – namely credit risk adjustment, VOLA and extrapolation technique towards UFR remained unchanged.

Credit spread risk
Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of assets in scope, as listed below.

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

Risk profile
As shown in the 'Solvency Capital Requirements' table, the credit spread risk SCR of NN Leven based on PIM has slightly decreased from EUR 2,026 million in 2017 to EUR 2,021 million in 2018. This is caused by a widening of the spreads on government bonds, particularly the Italian bonds (Italian spreads moved up by almost 100bps), the corporate bonds and mortgages, offset by the investment in mortgages.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2018	2017 [1]	2018	2017
Government Bonds and loans	31,421	33,866	68%	70%
Asset-backed securities	1,549	1,620	3%	3%
Finance and insurance	2,816	2,824	6%	6%
Manufacturing	3,453	3,528	7%	7%
Utilities	1,137	1,141	3%	3%
Information	964	1,038	2%	2%
Real estate and Rental and leasing	883	824	2%	2%
Construction	581	464	1%	1%
Other	3,388	3,004	8%	6%
Total	**46,192**	**48,309**	**100%**	**100%**

1 In 2017 the (CRE) loans are included in the market value. The 'Real estate and Rental and Leasing' and 'Construction' segment are new in the top 5 industry segments as per end of 2018.

Notes to the Consolidated annual accounts Continued

The table below sets out the market value of NN Leven's assets invested in government bonds by country and maturity. During 2018 the government bond exposure has been reduced in line with the SAA. The increase in 'Other' is caused by the investment in credits and CRE loans.

Market value government bond and loans exposures (2018)[1]

		Market value of government bond and loans 2018 by number of years to maturity [3]								
	Rating [2]	**0-1**	**1-2**	**2-3**	**3-5**	**5-10**	**10-20**	**20-30**	**30+**	**Total**
France	AA				38		1,401	1,707	3,746	6,892
Germany	AAA	9	5	13	98	1,544	2,254	2,327		6,250
Netherlands	AAA	44	48	316	717	1,057	1,172	1,792	12	5,158
Austria	AA+	74	123	168	165	1,346	746	617	634	3,873
Belgium	AA-	7	115		519	575	879	1,513		3,608
Finland	AA+	43	147	39		331		592		1,152
European Union[4]	AAA	50		5	112	86	369	282		904
Spain	A-					104	415	376		895
Italy	BBB					194	459			653
United Kingdom	AA				170		167			337
Poland	A						263			263
Other - Above investment grade		10	29	83	175	545	302	193		1,337
Other - Below investment grade					11	75	13			99
Total		**237**	**467**	**624**	**2,005**	**5,857**	**8,440**	**9,399**	**4,392**	**31,421**

1 Domestic exposure is nil in all countries except the Netherlands where exposure is 100%.
2 NN Leven uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
3 Based on legal maturity date.
4 Includes EIB, ECB, EFSF, EU and ESM.

Market value government bond and loans exposures (2017)[1]

		Market value of government bond and loans 2017 by number of years to maturity [3]								
	Rating [2]	**0-1**	**1-2**	**2-3**	**3-5**	**5-10**	**10-20**	**20-30**	**30+**	**Total**
France	AA				1	38	1,011	2,030	3,655	6,735
Germany	AAA	108	9	6	25	1,053	3,329	3,097		7,627
Netherlands	AAA	39	46	52	297	1,140	2,768	2,287	12	6,641
Austria	AA+		77	128	342	1,346	700	609	616	3,818
Belgium	AA-		8	120	349	375	1,322	1,572		3,746
Finland	AAA		45	152	40	281	55	581		1,154
European Union[4]	AAA					208	491			699
Spain	A-		50		103	103	263	485		1,004
Italy	BBB				-	105	408	363		876
United Kingdom	AA				172		166			338
Poland	A						284			284
Others			11	25	218	161	336	193		944
Total		**147**	**246**	**483**	**1,547**	**4,810**	**11,133**	**11,217**	**4,283**	**33,866**

1 Domestic exposure is nil in all countries except the Netherlands where exposure is 100%.
2 NN Leven uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
3 Based on legal maturity date.
4 Includes EIB, ECB, EFSF, EU and ESM.

During 2018 the government bonds exposure has been reduced to conform to the SAA. Given the overweight of Dutch and German government bonds compared to the VOLA, these exposures were reduced in 2018. A combination of Dutch, German and French government bonds were included in the spread lock programme during 2018, which implies NN Leven has forward sold the underlying bonds using derivatives. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates.

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

Notes to the Consolidated annual accounts Continued

Market value non-government bond securities and loans (2018)

	Market value of non-government bond securities and loans by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total
AAA	48	8	34	188	337	304	667	819	2,405
AA	127	160	311	305	298	175	92	108	1,576
A	303	313	327	1,365	1,064	43	110	82	3,607
BBB	424	316	605	1,597	2,186	442	109		5,679
BB	46	77	153	447	661	11	6		1,401
B				16	81				97
No rating available[1]	3		1	2					6
Total	**951**	**874**	**1,431**	**3,920**	**4,627**	**975**	**984**	**1,009**	**14,771**

1 This category also includes limited exposure in CCC or below rated instruments of around EUR 3 million and instruments with 'No rating (NR)'.

Market value non-government bond securities and loans (2017)

	Market value of non-government bond securities and loans 2017 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total
AAA	110	50	9	162	521	241	780	745	2,618
AA	173	117	150	449	411	230	116	100	1,746
A	326	294	358	915	1,208	119	293	67	3,580
BBB	175	534	289	1,399	2,378	251	45	56	5,127
BB	25	88	98	294	733	8	6		1,252
B			10	44	33				87
No rating available[1]			2	3		30			35
Total	**809**	**1,083**	**916**	**3,266**	**5,284**	**879**	**1,240**	**968**	**14,445**

1 This category also includes limited exposure in CCC or below rated instruments of around EUR 3 million and instruments with 'No rating' (NR).

The corporate bonds and commercial lending increased slightly in line with the SAA. An increase in commercial lending is favored in the SAA.

The table below sets out NN Leven's loans and debt securities by market value per credit rating as at 31 December 2018 and 2017 respectively.

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

	Fair value 2018	Fair value 2017	Book value 2018	Book value 2017
AAA	14,919	18,018	14,747	17,828
AA	17,543	17,717	17,513	17,664
A	5,275	4,381	5,196	4,318
BBB	6,811	6,745	6,811	6,675
BB	1,498	1,297	1,498	1,286
B	139	118	140	118
CCC	3	3	4	4
CC				
C		2		2
D				
No rating available[1]	3	88	3	87
Mortgages[2]	16,513	13,480	16,271	13,254
Other retail loans	311		311	
Total	**63,015**	**61,849**	**62,494**	**61,236**

1 This category include instruments with 'No Rating' (NR).
2 Mortgages refer to all mortgages using the same criteria and is aligned with the mortgages figure in Investment assets above for 2018.

Given the overweight of Dutch and German government bonds compared to the VOLA these exposures reduced in 2018. This leads to a decrease in AAA rated government bonds compared to 2017. The mortgages increased due to additional investments which is in line with the SAA.

Mortgages

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

The Loan-to-Value (LTV) for residential mortgages is based on the net average loan to property indexed value; NN Leven stands at 79% (2017: 81%), due to the high proportion of interest-only mortgages. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages has been observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 24% (2017: 18%) at NN Leven at the end of 2018.

Notes to the Consolidated annual accounts Continued

Credit quality: NN Leven mortgage portfolio, outstanding

	2018	2017
Performing mortgage loans not past due	14,248	12,057
Performing mortgage loans past due	221	112
Non-performing mortgage loans[1]	68	68
Total	**14,537**	**12,237**
Provisions for performing mortgage loans	3	6
Provisions for non-performing mortgage loans	10	16
Total	**13**	**22**

1 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due.

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the loan is 90 days past due or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP status is withdrawn).

The net exposure decreased because of increasing house prices and payments (contractual and prepayments) on mortgages.

Collateral on mortgage loans

	2018	2017
Carrying value	14,537	12,237
Indexed collateral value of real estate	20,608	16,688
Saving held[1]	583	589
NHG guarantee value[2]	3,006	2,176
Total cover value + NHG guarantee capped carrying value[3]	14,442	12,114
Net exposure	**95**	**123**

1 Savings held includes life policies and investment policies.
2 The NHG guarantee value follows an annuity scheme and is not corrected for the 10% own risk (on the granted NHG claim).
3 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions, the total cover value includes NHG guarantee capped at carrying value.

The carrying value increased due to additional investments in mortgages to conform to SAA. Collateral value increased in line with the development in the Dutch housing market.

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

In 2016, NN Leven started a spread lock programme. The goal of this programme is to maintain the spread level of the underlying government bonds to prevent the spread moving into unattractive levels. The entered spread locks reduced the spread exposures on French, Dutch and German bonds. At the end of 2018 the entered spread locks in portfolio have a total face value of EUR 1.7 billion. In 2018 NN Leven has sold a significant part of the government bonds of approximately EUR 3 billion.

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

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

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

Risk profile
FX transaction risk can occur when items included in the financial statements are measured using the country's local currency instead of NN Leven's reporting currency, the euro.

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

Risk measurement
The SCR for Own account for FX risk based on PIM increased from EUR 218 million to EUR 220 million at year end 2018.

Basis risk
The SCR basis risk is defined as a risk that the underlying asset or liability behaves differently than the underlying hedge instrument.

Risk profile
Basis risk can occur when the underlying asset or liability behaves differently than the underlying hedge instrument, which results in a loss in the Solvency II balance sheet.

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

Risk Measurement
The SCR for basis risk increased from EUR 27 million at 31 December 2017, to EUR 51 million at 31 December 2018. The increase is caused by increased volatility in the markets and widening of credit spreads in the hedge for the separate account business.

Counterparty default risk
Counterparty default risk (CDR) is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Leven. The SCR for CDR is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets.

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

Risk profile
In 2018, the total increase of the CDR was EUR 38 million. The main driver is that the CDR module has been extended with receivables from intermediaries and policyholder debtors. Cash is the largest Type I exposure. Other sources of CDR include reinsurance and the claims on counterparties from over-the-counter derivatives. NN Leven has no exposure in Type II counterparty default.

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

Risk measurement
In the CDR module, the CDR Type I is applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated. The underlying model is the Ter Berg model (basis for Standard Formula under Solvency II)

The capital charges for the CDR Type I exposure form the basis for the respective capital treatment in the CDR module.

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

Market and credit risk: separate account
Separate account guaranteed group pension business
In the separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their contract with NN Leven. The separate account businesses are those in which the policyholder bears the majority of the market and credit risk.

Regardless of actual returns on these investments, NN Leven guarantees pension benefits for the beneficiaries under the contract. The value of the guarantee that NN Leven provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

- The assets under management for NN Leven's portfolio decreased from EUR 3.3 billion in 2017 to EUR 2.9 billion in 2018, mainly driven by the runoff of the portfolio.
- Businesses in the separate account category is the group pension business for which certain guarantees are provided, and other separate account business, primarily the unit-linked business. Some unit-linked policies include a guarantee on the performance of specific underlying funds. The value of this guarantee is sensitive to interest rates, movements in the underlying funds and the volatility of those funds. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. Upon contract renewal, NN Leven offers policyholders defined contribution products with investments in portfolios that NN Leven can more easily hedge, thus reducing the risk. The risk that the present value of future fees is affected by market movements of the underlying policyholder funds is not hedged. NN Leven determines EOF for the market of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

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

Risk mitigation
NN Leven currently hedges the value of the guarantees it provided under group pension contracts. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge programme includes equity basket options, swaps and equity futures.

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

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

Risk mitigation
NN Leven's Liquidity Management Principles include the following:

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

NN Leven defines three levels of liquidity management:

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

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

Risk measurement
Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Leven manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Leven can meet immediate obligations. Accordingly, NN Leven does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available.

Non-market risk
The non-market risks are split in:

- Insurance risk: is the risk related to the events insured by NN Leven and comprise actuarial and underwriting risks such as mortality, longevity and morbidity, which result from the pricing and acceptance of insurance contracts
- Business risk: is the risk related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Leven. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of products affects the attractiveness of these products for customers.

Risk profile
The table below presents the non-market risk SCR composition based on PIM at the end of 2017 and 2018 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Notes to the Consolidated annual accounts Continued

Non-market risk capital requirements

	2018	2017
Insurance risk	2,686	2,705
Business risk	976	1,130
Diversification non-market risk	-662	-738
Non-market risk	**3,000**	**3,097**

Insurance risk

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

Risk profile

Insurance risk capital requirements

	2018	2017
Mortality (including longevity)	2,685	2,705
Morbidity	28	32
Diversification insurance risk	-27	-32
Insurance risk	**2,686**	**2,705**

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

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements like better living conditions, improved health care and medical breakthrough. While NN Leven is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business is significantly larger than the mortality risk in the other businesses, which is not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like Own Funds.

Morbidity risk is related to disability insurance products that pay out fixed amounts or reimburses losses (e.g. loss of income) related to a certain event or certain illness or disability. Morbidity risk is of marginal importance, as the disability products are only sold as riders to life insurance policies.

Risk mitigation

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

NN Leven reduces the likelihood that a single risk event will have a material impact on NN Leven's financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Leven underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Leven's underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes. In addition, insurance risks are managed through concentration and exposure limits and through reinsurance to reduce the own fund volatility.

In 2017, NN Leven entered into an index-based longevity hedge transaction with reinsurance firm Hannover Re with a notional of EUR 100 million, leading to a Solvency II capital relief of approximately EUR 38 million before diversification. The longevity hedge capital relief increase of EUR 2 million (from EUR 36 million in 2017 to EUR 38 million in 2018) is explained by the increased (observed) mortality rates in 2017 and the upward adjustment for projected future mortality rates. This transaction is designed to reduce NN Leven's exposure to future mortality improvements in the Netherlands. When future longevity improvements are stronger than currently expected, NN Leven will receive a payment under the hedge. Therefore, the deal provides some reduction for the risk that our pension policyholders live longer than expected. NN Leven is investigating other ways to reduce the longevity risk, for example by reinsurance.

Risk measurement

Given the long-term nature of the liability portfolio, the capital requirements underlying insurance risk are sensitive to interest rates while VOLA changes due to the discounting impact. The EUR interest rate curve is lower at the end of 2018 compared to the end of 2017 and the VOLA increased from 4 bps to 24 bps in 2018. Higher VOLAs resulted in the higher interest rate curve with VOLA at the end of 2018 compared to 2017. A regular assumption update of the CBS-2017 mortality table and experience rates leads to a decrease of the insurance risk. The decrease is offset by the extension of the project horizon of the mortality rates.

Morbidity risk decreased mainly due to a portfolio run-off.

Business risk

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

Notes to the Consolidated annual accounts Continued

Risk profile

Business risk capital requirements

	2018	2017
Persistency and calamity	147	171
Expense	943	1,092
Diversification business risk	-114	-133
Business risk	**976**	**1,130**

The decrease of the business risk is caused by the update of the expense risk model and regular expenses assumption update. Decreased inflation rates increased inflation risk. This is offset by decreased interest rates.

The main causes for the decrease of the persistency risk are the regular lapse assumption update and portfolio run-off.

Total administrative expenses for NN Leven in 2018 amounted to EUR 311 million. Parts of these expenses are variable, depending on the size of the business and sales volumes, and part are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

Expense risk relates primarily to the fixed part of NN Leven's expenses, and is the risk that future actual expenses per policy exceed the expenses assumed per policy. The majority of the expense risk is driven by expense level risk.

A significant portion of the fixed expense risk is incurred in the closed block operations. NN Leven is exposed to the risk that the expenses will not decrease by the same rate as the number of policies in the in-force book leading to a per policy expense increase. Furthermore, the valuation of the Leven pension business includes long-term best estimate expense assumptions, discounted over a long period of time. Changes in these assumptions will affect NN Leven's expense risk.

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

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

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

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

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

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

Notes to the Consolidated annual accounts Continued

The business operations risk management areas covered within NN Leven are:

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

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

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

Risk mitigation

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

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

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

NN Leven conducts regular risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. The exposure of NN Leven to non-financial risks are regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable risk is assessed as to likelihood of occurrence as well as potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

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

Risk measurement

NN Leven's SCR for operational risk decreased by EUR 15 million to EUR 310 million as at 31 December 2018. The main cause is the decreased technical provisions due to the portfolio run-off. The SCR is calculated based on the standard formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Leven risks.

Business conduct risk

Risk profile

Through NN Leven's retirement services, insurance and investments products, NN Leven is committed to help our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision-making. Further, NN Leven is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates (business conduct risk). All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. NN Leven continuously enhances its business conduct risk management programme to ensure that NN Leven complies with international standards and laws.

Notes to the Consolidated annual accounts Continued

Risk mitigation

NN Leven separates business conduct risk into three risk areas: sound business conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, NN Leven has a whistleblower policy and procedure which protects and encourages staff to 'speak up' if they know of or suspect a breach of external regulations, internal policies or our values. NN Leven has policies and procedures regarding anti-money laundering, anti-terrorist financing, sanctions, anti-bribery and corruption, customer suitability, conflicts of interest and confidential and inside information, as well as a Code of Conduct for its personnel. Furthermore, NN Leven designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

NN Leven performs a product approval and review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

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

43 Capital and liquidity management

Objective

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

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

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

Processes for managing capital and liquidity

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

The capital position of NN Leven is evaluated in three perspectives: the statutory position, the economic point in time perspective and a dynamic forward looking perspective. The statutory position monitors whether NN Leven fulfils the solvency requirements. The economic point in time perspective starts from the statutory solvency and applies adjustments to create a (more) economic balance sheet. The dynamic forward looking perspective (also referred to as capital creation) considers how the statutory capital position develops over time, taking into account the development of the technical provisions including risk margin, in relation to the development of the assets and capital requirements.

The liquidity position of NN Leven is monitored by taking into account possible events with an impact on the liquidity position like insurance claims, investments and collateral requirements from derivative transactions. This leads to monitoring and managing on a long term and short term perspective. The long term perspective includes possible events that can impact our liquidity position within a period of one year. It includes (i) liquid assets – in some cases subject to a haircut- divided by (ii) the expected outflow including lapses in a severe stress scenario. The short term perspective is based on a one-day horizon and compares (i) directly available cash divided with (ii) a one-day shock in cash outflow because of collateral calls in the derivative portfolio.

Main events in 2018

During 2018 a total dividend of EUR 700 million was paid in four equal instalments of EUR 175 million in March, June, September and December.

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

EIOPA reduced the UFR as from 1 January 2018 from 4.2% to 4.05%. Per year end 2018 the UFR stands at 4,05%, on 1 January 2019 it is decreased further to 3.90%.

In 2018 the real estate holding company of NN Group REI Investment I BV (REI) was transformed into a tax transparent fund. This means that NN Leven directly owns real estate of the participants of REI from a tax perspective. The tax position on real estate is transferred into the (fiscal) balance sheet of NN Leven. The transformation is limited to Dutch real estate and REI Fund B.V., REI Netherlands BV and Bouwfonds Nationale-Nederlanden BV.

In the last quarter of 2018 a fiscal revaluation of the technical provisions of NN Leven took place. The fiscal provision is revalued based on the latest mortality tables and an updated discount rate.

In December 2018 the Dutch Ministry of Finance announced that the corporate tax rate will decrease to 22.55% in 2020 and 20.50% in 2021. The deferred tax position and LACDT are adjusted accordingly as per year-end 2018.

On 13 December 2018, NN Group announced that that it has obtained approval from DNB to execute the legal merger of Delta Lloyd Levensverzekering into NN Leven. The legal merger became effective on 1 January 2019. As a result, NN Leven assumed all assets and liabilities of Delta Lloyd Levensverzekering, including its subordinated notes of EUR 500 million.

Other events

In March 2019, NN Leven will make a dividend distribution of EUR 185 million from Other reserves to its shareholder NN Nederland. The solvency ratio at 31 December 2018 has not been adjusted for this dividend payment.

Notes to the Consolidated annual accounts Continued

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

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

NN Leven uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The regulatory approval of the model from DNB was received in December 2015. The PIM is subject to a strict governance, and parts of it may be subject to change. In December 2018 DNB approved a further update of the PIM.

The reported Solvency II capital ratios of NN Leven do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on in the past, as this potential liability cannot be reliably estimated or quantified at this point. NN Leven is well capitalised at 31 December 2018 with a Solvency II ratio of 255% based on the PIM.

Facility agreement
NNIF and NN Leven have a facility agreement in place, providing NN Leven for the possibility to borrow short term funds from NNIF up to a maximum amount of EUR 1,000 million. The available funds are dependent on the available liquidity in NNIF and its own liquidity requirements. The funds may only be used to provide for liquidity needs at NN Leven related to collateral calls resulting from its derivative position. Interest is based on EONIA. When the liquidity requirements of NNIF exceed certain thresholds, NN Leven is required to pay back (part of) the funds drawn under the facility.

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

	2018	2017
Total equity	15,571	15,203
Elimination of deferred acquisition costs and other intangible assets	-232	-244
Valuation differences on assets	968	1,639
Valuation differences on liabilities, including insurance and investment contracts	-10,676	-12,254
Deferred tax effect on valuation differences	2,015	2,703
Excess assets/liabilities	**7,646**	**7,047**
Qualifying subordinated debt	1,130	1,137
Foreseeable dividends and distributions	-32	-31
Basic Own Funds	**8,744**	**8,153**
Non-eligible Own Funds		483
Eligible Own Funds to cover Solvency Capital Requirements (a)	**8,744**	**7,670**
Solvency Capital Requirements (b)	**3,430**	**3,540**
NN Leven Solvency II ratio (a/b)[1]	**255%**	**217%**

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

Development solvency during 2018
The Solvency II ratio of NN Leven increased to 255% at the end of 2018 from 217% at the end of 2017, mainly due to market variances and expected business contribution, partially offset by the impact of regulatory changes (the decrease in UFR level and change in Dutch corporate tax rate). Furthermore the changes in the Partial Internal Model (PIM) to NN Life also contributed to the SII ratio increase.

EOF increased by EUR 1,074 million, from EUR 7,670 million at 31 December 2017 to EUR 8,744 million at 31 December 2018. The change in EOF is mainly due to expected business contribution, market variance and positive impact of assumption changes, partially offset by the impact of regulatory changes (the decrease in UFR level and change in corporate tax rate) and the dividend payment.

Solvency Capital Requirement decreased by EUR 110 million, from 3,540 million at 31 December 2017 to EUR 3,430 million at 31 December 2018. The decrease is mainly driven by operating capital generation and market variance reflecting the favourable impact from credit spread movements partially offset by the decrease of interest rates. The negative impact from the decrease of the Dutch corporate tax rate is partly offset by the positive impact of the expansion of the Partial Internal Model.

Notes to the Consolidated annual accounts Continued

Structure, amount and quality of Own Funds

Subordinated liabilities included in NN Leven eligible Own Funds for Solvency II reporting:

In the EOF of NN Leven there are two subordinated liabilities.

Interest rate	Year of issue	Notional amount	Due date	First call date	Own Funds tier	Fair value (dirty) 2018[1]	Fair value (dirty) 2017[1]
4.52% (quarterly payments)	2014	450 million	Perpetual	30 May 2019	Tier 1 (after grandfathering)	455 million	463 million
5.6% (annual payments)	2014	600 million	10 February 2044	10 February 2024	Tier 2 (after grandfathering)	674 million	674 million

1 As defined based on Solvency II valuation guidelines.

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

Eligible Own Funds

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

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

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

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount
- Tier 1 capital shall be at least 50% of the SCR
- Tier 2 and Tier 3 capital together cannot exceed 50% of the SCR
- Tier 3 capital cannot exceed 15% of the SCR
- The proportion of Tier 1 items in the EOF should be higher than one third of the total amount of EOF
- Tier 3 capital cannot exceed one third of the total amount of EOF

Eligible Own Funds to cover Solvency Capital Requirement

2018	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**7,681**			**7,681**
Of which:				
- unrestricted Tier 1	7,226			7,226
- restricted Tier 1	455	Less than 20% Tier 1		455
Tier 2 + Tier 3	**1,063**	**Less than 50% SCR**		**1,063**
Tier 2	674			674
Tier 3	389	Less than 15% SCR		389
Total	**8,744**			**8,744**

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

Notes to the Consolidated annual accounts Continued

Credit ratings
After the legal merger with Delta Lloyd Levensverzekering NN Leven applied for a credit rating of the merged company.

On 2 January 2019, S&P Global Ratings assigned a 'A' long-term issuer credit and insurer financial strength ratings to NN Leven, with stable outlook.

Capital adequacy assessment
On 31 December 2018 the SCR based on the PIM is EUR 3,430 million. The application of the restrictions can be found in the table above. The amount of EOF to cover the SCR is EUR 8,744 million, leading to a Solvency II ratio of 255%. The capital position of NN Leven met all regulatory solvency requirements following the Solvency II directive throughout 2018.

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Leven for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board on 27 March 2019. The Management Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting.

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

Rotterdam, 27 March 2019

The Management Board

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

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

R.F.M. (Robin) Buijs

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

The Supervisory Board

J.L. (Janet) Stuijt, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the General Meeting, dated 31 May 2019.

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Parent company balance sheet

Amounts in thousands of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result	Notes	2018	2017
Assets			
Intangible assets		3,275	7,175
Investments in group companies and associates:			
– investments in group companies	2	6,217,047	5,816,741
– bonds issued by and receivables from group companies	3	412,279	679,128
– other associates		18,558	18,036
Other financial investments:			
– bonds and other fixed-income securities		41,060,454	43,493,997
– shares, units of participation and other variable-income securities	4	3,858,829	4,164,633
– interest in investment pools	5	251,805	282,945
– receivables from mortgages		15,205,270	13,172,290
– receivables from other loans	6	6,636,809	5,726,252
– deposits with credit institutions	7	216,898	218,743
Deposits with insurers		141	151
Derivatives	8	2,832,631	2,660,884
Investments for risk of policyholders	9	12,148,766	12,868,777
Reinsurance contracts	14	1,073,213	1,151,150
Receivables:			
– receivables from policyholders		306,664	304,463
– receivables from intermediaries		3,351	4,094
– receivables from reinsurance		7,760	3,000
– other receivables	10	992,473	1,149,436
– income tax receivable		59,998	
Other assets:			
– other assets		657	923
– cash and cash equivalents	11	26,716	41,442
Accrued assets:			
– accrued interest	12	855,320	916,548
– deferred acquisition costs		228,408	236,636
– other accrued assets		773	779
Total assets		**92,418,095**	**92,918,223**

References relate to the notes starting on page 95. These form an integral part of the Parent company annual accounts.

Parent company balance sheet Continued

Parent company balance sheet – continued

As at 31 December before appropriation of result	Notes	2018	2017
Equity	13		
Share capital		22,689	22,689
Share premium		3,228,030	3,228,030
Legal reserves		826,005	994,999
Revaluation reserve		6,282,192	6,882,068
Other reserves		3,480,836	2,382,974
Unappropriated profit		1,731,194	1,691,926
Shareholder's equity		**15,570,946**	**15,202,686**
Undated subordinated loan		450,000	450,000
Total shareholder's equity		**16,020,946**	**15,652,686**
Liabilities			
Subordinated debt		600,000	600,000
Technical provisions:	14		
– technical provisions for life insurance		47,580,780	48,033,678
– technical provisions for profit sharing and rebates		10,203,346	10,559,614
– other technical provisions		245,921	243,836
Technical provisions for insurance for risk of policyholders		11,287,926	11,843,083
Derivatives	15	1,143,696	1,229,404
Deferred tax liabilities	16	1,626,365	1,689,104
Other provisions	17	631,284	666,850
Deposits from reinsurers		994,282	1,072,741
Liabilities:			
– liabilities from direct insurance		820,222	881,883
– other bonds and private loans	18	705,416	206,078
– other liabilities	19	449,987	113,546
– income tax payable			39,894
Accrued liabilities	20	107,924	85,826
Total liabilities		**76,397,149**	**77,265,537**
Total equity and liabilities		**92,418,095**	**92,918,223**

References relate to the notes starting on page 95. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Parent company profit and loss account

For the year ended 31 December	notes	2018	2017
Premiums written – net of reinsurance			
Gross premiums		2,279,322	2,289,104
Reinsurance and retrocession premiums		-159,140	-161,503
Investment income	21		
Result from associates		545,446	547,788
Income from other investments		1,952,022	2,098,165
Realised gains on investments		987,635	956,410
Unrealised gains on investments	21	183,797	485,605
Net other technical income	22	13,119	212,064
Benefits net of reinsurance			
Gross benefits		4,212,538	4,550,219
Reinsurance recoveries		-144,339	-142,446
Change in technical provision for life insurance	23		
– gross change		-1,064,825	-1,461,384
– change in reinsurers' share		-436	-212
– other technical provisions		2,085	9,141
Profit sharing and rebates	23	-381,186	491,945
Operating expenses			
Acquisition costs		50,745	57,847
Management and staff expenses, equipment deprecation	24	377,843	405,016
Commissions and profit sharing received from reinsurers		272	2,872
Investment expenses			
Management expenses and interest	25	117,426	107,834
Impairments on investments	21	45,547	57,854
Realised losses on investments	21		11,803
Unrealised losses on investments	21	341,551	80,473
Other net technical expenses	26	348,382	300,465
Investment income allocated to non-technical account		788,747	844,693
Result of life insurance technical account		1,107,851	1,111,513
Non-technical account			
Result of life insurance technical account		1,107,851	1,111,513
Allocated investment income transferred from technical account		788,747	844,693
Other income			92
Other expenses		-803	
Result from ordinary activities before taxation		1,895,795	1,956,298
Tax on result from ordinary activities	27	-164,601	-264,372
Result from ordinary activities after taxation		1,731,194	1,691,926

Parent company statement of changes in equity

Parent company statement of changes in equity

	Share capital	Share premium	Legal reserves	Revaluation reserve	Other reserves [1]	Undated subordinated loan	Total
Balance at 1 January 2018	**22,689**	**3,228,030**	**994,999**	**6,882,068**	**4,074,900**	**450,000**	**15,652,686**
Revaluations			-71,342	-494,097			-565,439
Changes in cash flow hedge reserve				559,177			559,177
ABS reserve amortisation				12,485			12,485
Deferred profit sharing liability				-677,969			-677,969
Transfer to legal reserves			-92,502		92,502		
Dividend from associates			-1,250		1,250		
Other changes			-3,900		27,696		23,796
Exchange rate differences				528	-257		271
Total amount recognised directly in equity (other comprehensive income)			**-168,994**	**-599,876**	**121,191**		**-647,679**
Dividend paid					-715,255		-715,255
Net result					1,731,194		1,731,194
Balance at 31 December 2018	**22,689**	**3,228,030**	**826,005**	**6,282,192**	**5,212,030**	**450,000**	**16,020,946**

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

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

All the changes are net of tax.

Notes to the Parent company annual accounts

1 Accounting policies

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

A list containing the information referred to in Article 379 (1), Part 9 of Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of the Chamber of Commerce, in accordance with Article 379 (5), Book 2 of the Dutch Civil Code. Reference is made to the list filed by NN Group.

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

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

Insurance contracts

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

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

2 Investments in group companies

Investments in group companies

	2018	2017
REI Investment I B.V.	4,006,017	4,938,888
REI Diaphane Fund FGR	1,165,868	
Private Equity Investments II B.V.	223,096	425,744
Korea Investment Fund B.V.	139,948	239,060
Infrastructure Debt Investments B.V.	52,212	407
Private Equity Investments B.V.	353,425	207,136
Private Debt Investments B.V.	250,282	1,095
Other	26,199	4,411
Investments in group companies	**6,217,047**	**5,816,741**

Changes in Investments in group companies

	2018	2017
Investments in group companies - opening balance	5,816,741	4,969,717
Investments	329,141	656,066
Disposals	-228,668	
Transfer from/to other group companies	24,703	4,342
Result of group companies	542,337	544,311
Dividend	-214,286	-473,608
Revaluations	-52,921	115,913
Investments in group companies - closing balance	**6,217,047**	**5,816,741**
Breakdown of balance sheet value:		
Cost	4,953,766	4,600,723
Cumulative revaluations	1,263,281	1,216,018
Investments in group companies	**6,217,047**	**5,816,741**

Notes to the Parent company annual accounts Continued

3 Bonds issued by and receivables from group companies

	2018	2017
REI Investment I B.V.	61,279	
Private Equity Investments B.V.		100,428
Private Debt Investments B.V.	351,000	545,500
Infrastructure Debt Investments B.V.		33,200
Bonds issued by and receivables from group companies	**412,279**	**679,128**

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

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

	2018	2017
Shares, units of participation and other variable-income securities - opening balance	4,164,633	4,414,082
Investments	508,540	285,281
Disposals	-693,254	-984,190
Revaluations	-366,856	114,140
Impairments	-45,547	-53,159
Realised result	206,910	401,450
Exchange rate differences	417	-12,971
Transfers and reclassifications	83,986	
Shares, units of participation and other variable-income securities - closing balance	**3,858,829**	**4,164,633**
Breakdown of balance sheet value:		
Cost	3,040,916	2,981,253
Cumulative revaluations	817,913	1,183,380
Shares, units of participation and other variable-income securities	**3,858,829**	**4,164,633**
Listed	3,156,565	3,306,262
Unlisted	702,264	858,371
Shares, units of participation and other variable-income securities	**3,858,829**	**4,164,633**

5 Interest in investment pools

Changes in Interest in investment pools

	2018	2017
Interest in investment pools - opening balance	282,945	234,142
Investments	15,959	78,056
Disposals	-59,119	-23,528
Revaluations	12,042	-6,192
Exchange rate differences	-22	467
Interest in investment pools - closing balance	**251,805**	**282,945**

6 Receivables from other loans

Changes in Receivables from other loans

	2018	2017
Receivables from other loans - opening balance	5,733,842	6,312,394
Investments	1,752,275	872,383
Disposals	-787	-317,312
Redemptions	-819,669	-1,162,427
Transfer from/to other assets	-36,370	
Amortisation	18,630	30,700
Realised result	-1,255	254
Other changes	-1,123	-2,150
Receivables from other loans – before Provision for doubtful debts	**6,645,543**	**5,733,842**
Provision for doubtful debts	-8,734	-7,590
Receivables from other loans - closing balance	**6,636,809**	**5,726,252**

Notes to the Parent company annual accounts Continued

Changes in Provision for doubtful debts

	2018	2017
Provision for doubtful debts - opening balance	7,590	11,286
Allocation	2,303	-1,477
Withdrawal	-1,159	-2,219
Provision for doubtful debts - closing balance	**8,734**	**7,590**

The fair value of the receivables from other loans (including mortgages and deposits with credit institutions) amount to EUR 22,059 million (2017: EUR 20,761 million).

7 Deposits with credit institutions

Changes in Deposits with credit institutions

	2018	2017
Deposits with credit institutions - opening balance	218,743	217,060
Investments	2,311	1,687
Disposals	-4,156	-4
Deposits with credit institutions - closing balance	**216,898**	**218,743**

8 Derivatives

Changes in Derivatives

	2018	2017
Derivatives - opening balance	2,660,884	3,030,669
Investments	19,014	38,302
Disposals	-193,771	-40,768
Revaluations	346,504	-367,319
Derivatives – closing balance	**2,832,631**	**2,660,884**
Breakdown of balance sheet value		
Cost	22,534	133,860
Cumulative revaluations	2,810,097	2,527,024
Derivatives	**2,832,631**	**2,660,884**

9 Investments for risk of policyholders

Changes in Investments for risk of policyholders

	2018	2017
Investments for risk of policyholders - opening balance	12,868,777	15,001,771
Investments	1,493,723	1,934,979
Disposals	-2,035,144	-4,369,577
Revaluations	-411,422	-486,234
Realised result	127,900	780,469
Exchange rate differences	-3,870	26,637
Other changes	108,802	-19,268
Investments for risk of policyholders - closing balance	**12,148,766**	**12,868,777**

10 Other receivables

Other receivables

	2018	2017
Receivables and trade accounts receivable	79,252	197,062
Current-account balance with related parties	913,303	952,455
Other receivables – before Provision for doubtful debts	**992,555**	**1,149,517**
Provision for doubtful debts	-82	-81
Other receivables	**992,473**	**1,149,436**

Notes to the Parent company annual accounts Continued

Changes in Provision for doubtful debts

	2018	2017
Provision for doubtful debts - opening balance	81	416
Withdrawal		-339
Release	1	4
Provision for doubtful debts - closing balance	**82**	**81**

Under ´Receivables and trade accounts receivable´ is an amount of nil (2017: nil) non-current.

The current account with related parties includes EUR 913 million (2017: EUR 952 million) relating to parent companies. NN Leven receives or pays interest in line with market rates on the current account balance. The rate is based on the average one-month Euribor rate plus or minus a liquidity spread.

For further information regarding transactions with related parties reference is made to note 39 'Related parties' in the Consolidated annual accounts.

11 Cash and cash equivalents

Cash and cash equivalents

	2018	2017
Bank balances	22,094	36,214
Deposits	4,621	5,226
Cash resources	1	2
Cash and cash equivalents	**26,716**	**41,442**

12 Accrued interest

Accrued interest

	2018	2017
Bonds and other fixed-income securities	681,658	731,931
Derivatives	113,514	104,576
Receivables from mortgages	38,492	36,423
Receivables from other loans	21,696	43,618
Other	-40	
Accrued interest	**855,320**	**916,548**

13 Equity

Equity

	2018	2017
Share capital	22,689	22,689
Share premium	3,228,030	3,228,030
Legal reserves	826,005	994,999
Revaluation reserve	6,282,192	6,882,068
Other reserves	3,480,836	2,382,974
Unappropriated profit	1,731,194	1,691,926
Shareholder´s equity	**15,570,946**	**15,202,686**
Undated subordinated loan	450,000	450,000
Total equity	**16,020,946**	**15,652,686**

Share capital

	Shares (in number)		Ordinary shares (amount)	
	2018	2017	2018	2017
Authorised share capital	22,689,015	22,689,015	113,445	113,445
Unissued share capital	18,151,212	18,151,212	90,756	90,756
Issued share capital	**4,537,803**	**4,537,803**	**22,689**	**22,689**

Share premium

	2018	2017
Share premium - opening balance	3,228,030	3,228,030
Share premium - closing balance	**3,228,030**	**3,228,030**

Notes to the Parent company annual accounts Continued

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

Legal reserves

	2018	2017
Intangible assets reserve	3,275	7,175
Share of associates reserve	822,730	987,824
Legal reserves	**826,005**	**994,999**

Changes in Intangible assets reserve

	2018	2017
Intangible assets reserve - opening balance	7,175	9,078
Capitalised costs		1,500
Amortisation	-3,900	-3,400
Other changes		-3
Intangible assets reserve - closing balance	**3,275**	**7,175**

Changes in Share of associates reserve

	2018	2017
Share of associates reserve - opening balance	987,824	677,228
Revaluations	-71,342	115,913
Result for the financial year	-92,502	196,383
Dividend received / paid	-1,250	-1,700
Share of associates reserve - closing balance	**822,730**	**987,824**

Share of associates reserve

	2018	2017
Unrealised revaluations within consolidated group companies	201,364	274,365
Currency translation reserve	-52,722	-53,745
Reserve for non-distributable retained earnings of associate	553,961	635,672
Revaluations on investment property and certain participations recognised in income	120,127	131,532
Share of associate reserve closing balance	**822,730**	**987,824**

Revaluation reserve

	2018	2017
Bond revaluation reserve	1,206,735	2,015,682
Share revaluation reserve	793,570	1,143,676
Hedge reserve	4,281,887	3,722,710
Revaluation reserve	**6,282,192**	**6,882,068**

All changes are net of taxes.

Changes in Bond revaluation reserve

	2018	2017
Bond revaluation reserve - opening balance	2,015,682	3,024,010
Revaluations	-677,969	-1,681,693
Change on account of deferred profit sharing liability	-143,445	644,961
Amortisation of ABS bond revaluation	12,485	27,749
Exchange rate differences	-18	655
Bond revaluation reserve - closing balance	**1,206,735**	**2,015,682**

Changes in Share revaluation reserve

	2018	2017
Share revaluation reserve - opening balance	1,143,676	1,041,867
Revaluations	-350,652	115,995
Exchange rate differences	546	-14,186
Share revaluation reserve - closing balance	**793,570**	**1,143,676**

Changes in Hedge reserve

	2018	2017
Hedge reserve - opening balance	3,722,710	4,370,999
Revaluations	559,177	-648,289
Hedge reserve - closing balance	**4,281,887**	**3,722,710**

Notes to the Parent company annual accounts Continued

Changes in Other reserves

	2018	2017
Other reserves - opening balance	2,382,974	2,533,152
Transfer of unappropriated profit from previous financial year	1,691,926	987,465
Dividend from associates	1,250	1,700
Withdrawal from legal reserves	92,502	-196,383
Dividend paid	-715,255	-940,255
Exchange rate differences	-257	831
Other changes	27,696	-3,536
Other reserves - closing balance	**3,480,836**	**2,382,974**

Unappropriated result

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

Distributable reserves

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

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

Distributable reserves based on Dutch Civil Code

	2018		2017	
Total Shareholder's equity		15,570,946		15,202,686
Share capital	-22,689		-22,689	
– revaluation reserve for bonds	-1,206,735		-2,015,682	
– revaluation reserve for shares	-793,570		-1,143,676	
– revaluation reserve for hedge (net)	-4,281,887		-3,722,710	
Legal reserves	-826,005		-994,999	
Total capital subject to claims on account of capital protection		**-7,130,886**		**-7,899,756**
Distributable reserves based on Dutch Civil Code		**8,440,060**		**7,302,930**

Freely distributable capital

	2018		2017	
Solvency requirement under the Financial Supervision Act	3,430,032		3,539,612	
Capital available for financial supervision purposes[1]	8,744,318		7,669,849	
Total freely distributable capital on the basis of the Financial Supervision Act		5,314,286		4,130,237
Total freely distributable capital on the basis of the Civil Code		8,440,060		7,302,930
Total freely distributable capital (lowest of the above values)		**5,314,286**		**4,130,237**

[1] Reference is made to Note 43 'Capital and liquidity management', for the calculation of the capital available for financial supervision purposes.

Internal solvency objectives

During 2018 the commercial target capital was 130% Solvency II required capital.

Notes to the Parent company annual accounts Continued

14 Technical provisions

Technical provisions

	Provision net of reinsurance		Reinsurance contracts		Technical provisions	
	2018	2017	2018	2017	2018	2017
Technical provisions for life insurance net of interest and rebates	46,951,306	47,365,545	561,823	585,232	47,513,129	47,950,777
Unamortised acquisition costs	-197,536	-211,982	-21,651	-15,306	-219,187	-227,288
Unamortised interest rebates	67,651	82,901			67,651	82,901
Technical provisions for life insurance[1]	**46,821,421**	**47,236,464**	**540,172**	**569,926**	**47,361,593**	**47,806,390**
Technical provisions for (deferred) profit sharing and rebates	10,159,007	10,496,095	44,339	63,519	10,203,346	10,559,614
Other technical provisions	245,921	243,836			245,921	243,836
Technical provisions for life insurance for risk of policyholders[2]	10,790,003	11,316,030	488,702	517,705	11,278,705	11,833,735
Technical provisions	**68,016,352**	**69,292,425**	**1,073,213**	**1,151,150**	**69,089,565**	**70,443,575**

For information regarding the change in presentation of the technical provisions reference is made to Note 14 'Insurance and investment contracts, Reinsurance contracts' in the Consolidated annual accounts.

1 To reconcile the 'Technical provisions' for life insurance EUR 47,362 million (2017: EUR 47,806 million) with the financial statements EUR 47,581 million (2017: EUR 48,034 million) the acquisition costs EUR 219 million (2017: EUR 228 million) have to be added.
2 To reconcile the 'Technical provisions' for life insurance for risk of policyholders EUR 11,278 million (2017: EUR 11,834 million) with the financial statements EUR 11,287 million (2017: EUR 11,843 million) the acquisition costs EUR 9 million (2017: EUR 9 million) have to be added.

Changes in Technical provisions for life insurance for risk of policyholders

	2018	2017
Technical provisions for life insurance for risk of policyholders - opening balance	11,843,083	13,294,032
Current year provisions	619,606	508,538
Prior year provisions:		
– benefit payments to policyholders	-725,445	-1,365,123
– valuation changes for risk of policyholders	-285,732	995,071
Exchange rate differences	-3,767	26,304
Other changes[1]	-159,819	-1,615,739
Technical provisions for life insurance for risk of policyholders - closing balance	**11,287,926**	**11,843,083**

1 Other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts, and the transfer of certain insurance contracts.

Changes in Unamortised interest rate rebates net of reinsurance

	2018	2017
Unamortised interest rate rebates net of reinsurance - opening balance	-82,901	-86,090
Change during the financial year	-7,823	-15,546
Amortisation of interest rate rebate granted in the financial year	1,028	2,017
Amortisation of interest rate rebates capitalised in previous financial years	22,043	16,700
Exchange rate differences	2	18
Unamortised interest rate rebates net of reinsurance - closing balance	**-67,651**	**-82,901**

Changes in Other technical provisions

	2018	2017
Other technical provisions - opening balance	243,836	234,695
Allocation	2,085	9,546
Withdrawal		-405
Other technical provisions - closing balance	**245,921**	**243,836**

Changes in Technical provisions for profit sharing and rebates

	2018	2017
Technical provisions for profit sharing and rebates - opening balance	10,559,614	11,816,540
Valuation changes for risk of policyholders	-41,734	-327,106
Allocation of share in unrealised revaluations	-143,998	-856,549
Paid up additions	-26,057	-47,381
Interest accrual prior year provisions	-52,682	301,063
Allocation of share in surplus interest	-124,104	-340,400
Addition/withdrawal through profit and loss account	40,472	40,642
Exchange rate differences	-410	4,620
Other changes	-7,755	-31,815
Technical provisions for profit sharing and rebates - closing balance	**10,203,346**	**10,559,614**

Notes to the Parent company annual accounts Continued

15 Derivatives

Changes in Derivatives

	2018	2017
Derivatives - opening balance	1,229,404	744,661
Disposals	-194,916	-241,969
Revaluations	109,208	726,712
Derivatives – closing balance	**1,143,696**	**1,229,404**
Breakdown of balance sheet value		
- cost	479	1,456
- cumulative revaluation	1,143,217	1,227,948
Derivatives	**1,143,696**	**1,229,404**

16 Deferred tax liabilities

Changes in Deferred tax liabilities (2018)

	Net liability 2017	Change through equity	Change through Net result	Exchange rate differences and other changes	Net liability 2018
Investments	2,119,552	-541,461	-1,603	180,475	1,756,963
Financial assets and liabilities at fair value through profit or loss	1,240,759	-136,770			1,103,989
Deferred acquisition costs	54,655		-10,207	-23	44,425
Technical provisions	-1,763,885	287,442	785,808	66	-690,569
Unused tax losses carried forward			-610,703		-610,703
Other	38,023	368	-14,864	-1,267	22,260
Deferred tax liabilities	**1,689,104**	**-390,421**	**148,431**	**179,251**	**1,626,365**
Comprising:					
– deferred tax liabilities	3,452,989				2,927,637
– deferred tax assets	-1,763,885				-1,301,272
Deferred tax liabilities	**1,689,104**				**1,626,365**

Changes in Deferred tax liabilities (2017)

	Net liability 2016	Change through equity	Change through Net result	Exchange rate differences and other changes	Net liability 2017
Investments	2,667,295	-546,798	519	-1,464	2,119,552
Financial assets and liabilities at fair value through profit or loss	1,456,855	-216,096			1,240,759
Deferred acquisition costs	54,859		-324	120	54,655
Technical provisions	-1,973,546	211,588	-1,137	-790	-1,763,885
Other	32,002	-1	3,579	2443	38,023
Deferred tax liabilities	**2,237,465**	**-551,307**	**2,637**	**309**	**1,689,104**
Comprising:					
– deferred tax liabilities	4,211,011				3,452,989
– deferred tax assets	-1,973,546				-1,763,885
Deferred tax liabilities	**2,237,465**				**1,689,104**

17 Other provisions

Other provisions

	2018	2017
Provision for investment contracts[1]	614,747	646,347
Restructuring provisions[2]	3,068	9,037
Other	13,469	11,466
Other provisions	**631,284**	**666,850**

1 For further information on the provision for investment contracts, reference is made to Note 14 'Insurance and investment contracts, Reinsurance contracts' in the Consolidated annual accounts.

2 For further information on the restructuring provision, reference is made to Note 16 'Other liabilities' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

18 Other bonds and private loans

Changes in Other bonds and private loans

	2018	2017
Other bonds and private loans - opening balance	206,078	1,956,721
Investments	1,050,000	1,200,000
Disposals	-550,662	-2,950,643
Other bonds and private loans - closing balance	**705,416**	**206,078**

Specification of other bonds and private loans

	2018	2017
Loans from related companies[1]	500,000	
Other[2]	205,416	206,078
Other bonds and private loans	**705,416**	**206,078**

1 The average interest rate on 'Loans from related companies' is -0.363% (2017: -0.355%).
2 In accordance with the NN Group Annual accounts private loan in relation to the extinguishable swap is presented as other for both 2018 and comparative figures.

19 Other liabilities

Other liabilities

	2018	2017
Current-account balance with related companies	18,283	6,677
Taxation and social security contributions	42,261	43,007
Securities accounts payable	346,765	43,831
Other	42,678	20,031
Other Liabilities	**449,987**	**113,546**

Current-account balance with related companies

	2018	2017
Other group companies	18,283	6,677
Current-account balance with related companies	**18,283**	**6,677**

NN Leven receives or pays interest in line with market rates on the current account balance. The rate is based on the average one-month Euribor rate plus or minus a liquidity spread.

For further information regarding transactions with related parties reference is made to note 39 'Related parties' in the Consolidated annual accounts.

20 Accrued liabilities

Accrued liabilities

	2018	2017
Costs payable	11,364	3,965
Interest payable	96,560	81,861
Accrued liabilities	**107,924**	**85,826**

The maturity of accrued liabilities is one year or less.

21 Investment income

Investment income

	2018	2017
Investment income	2,497,468	2,645,953
Realised gains on investments	987,635	956,410
Unrealised gains on investments	183,797	485,605
Investment expenses: impairments of investments	-45,547	-57,854
Investment expenses: realised losses on investments		-11,803
Unrealised losses on investments	-341,551	-80,473
Investment Income	**3,281,802**	**3,937,838**

Notes to the Parent company annual accounts Continued

Investment income by category (2018)

2018	Investment income	Unrealised revaluations	Realised revaluations	Impairments	Total
Shares, units of participation and other variable-income securities	144,071		206,910	-45,547	305,434
Derivatives	149,882	151,032			300,914
Interests in investment pools		12,041			12,041
Investments in other associates	3,109				3,109
Investments in group companies	542,337				542,337
Investment for risk of policyholders	-15,186	-325,514	1,436		-339,264
Deposits with credit institutions	71				71
Cash and cash equivalents	3	-16,037			-16,034
Bonds issued by and receivables from group companies	35,125				35,125
Bonds and other fixed-income securities	1,021,721	20,724	777,893		1,820,338
Other results from investments	27,881		1,396		29,277
Receivables from other loans	136,250				136,250
Receivables from mortgages	452,204				452,204
Total	**2,497,468**	**-157,754**	**987,635**	**-45,547**	**3,281,802**

Investment income by category (2017)

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

Commission

The paid and unpaid fees for settling insurance contracts for the year 2018 amounts to EUR 37 million (2017: EUR 40 million).

22 Other net technical income

Other net technical income

	2018	2017
Income from portfolio transfer		28
Change in the value of investment units for account and risk of policyholders		199,650
Other	13,119	12,386
Other net technical income	**13,119**	**212,064**

1 Refer to Note 26 'Other net technical expenses'.

23 Change in technical provision for life insurance

Changes in Technical provisions for life insurance

2018	Gross	Reinsurance	Net of reinsurance
Technical provisions for life insurance	-1,064,825	-436	-1,065,261
Other technical provisions	2,085		2,085
Total	**-1,062,740**	**-436**	**-1,063,176**

2017	Gross	Reinsurance	Net of reinsurance
Technical provisions for life insurance	-1,461,384	-212	-1,461,596
Other technical provisions	9,141		9,141
Total	**-1,452,243**	**-212**	**-1,452,455**

Notes to the Parent company annual accounts Continued

Forms of result sharing

	2018	2017
Contractual result sharing	-415,369	463,977
Interest rate rebates	-6,925	-10,931
Result sharing dependent on operating results	41,108	38,899
Result sharing	**-381,186**	**491,945**

24 Management and staff expenses, equipment depreciation

Management and staff expenses, equipment depreciation

	2018	2017
Management expenses	189,888	178,539
Depreciation and amortisation	3,906	3,407
Staff expenses	205,044	235,515
Recharged to other business units	-20,995	-12,445
Management and staff expenses and equipment and depreciation	**377,843**	**405,016**

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

25 Management expenses and interest expenses

Management expenses and interest expenses

	2018	2017
Management expenses[1]	72,515	57,042
Interest expenses	44,911	50,792
Management expenses and interest expenses	**117,426**	**107,834**

1 Management expenses include EUR 5 million (2017: EUR -20 million) foreign currency results from technical provisions.

26 Other net technical expenses

Other net technical expenses

	2018	2017
Portfolio transfer expenses	41,065	279,508
Change in the value of investment units for account and risk of policyholders[1]	287,143	
Other	20,174	20,957
Other net technical expenses	**348,382**	**300,465**

1 Refer to Note 22 'Other net technical income' for comparative figures.

27 Taxes

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

Taxes by category

	2018	2017
Current taxes	16,170	261,722
Deferred taxes	148,431	2,650
Taxes	**164,601**	**264,372**

Notes to the Parent company annual accounts Continued

Reconciliation of the statutory and effective tax rates

	2018	2017
Result before tax	1,895,795	1,956,298
Associates exemption	-725,000	-859,093
Adjustments to prior periods		-1,224
Expenses not deductible for tax purposes to tax purposes	4,917	272
Impact on deferred tax from change in tax rates	-567,286	
Other income not subject to tax	55,972	-32,475
Total taxable amount	664,398	1,063,778
Effective tax amount	164,601	264,372
Effective tax rate	8.7%	13.5%
Nominal tax amount	472,709	487,499
Nominal tax rate	24.9%	24.9%

28 Other

Assets not freely disposable

For further explanation of the assets that are not freely disposable reference is made to Note 32 'Assets not freely disposable' in the Consolidated annual accounts.

Contingent liabilities and commitments

For further explanation of the Contingent liabilities and commitments reference is made to Note 35 'Contingent liabilities and commitments' in the Consolidated annual accounts.

Related parties

For further explanation of the related parties reference is made to Note 39 'Related parties' in the Consolidated annual accounts.

29 Subsequent events

For subsequent events of NN Leven reference is made to Note 41 'Other events' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

Analysis of the result of the NN Leven portfolio

Profit sources 2018

2018	Linked policies Individual and Group insurance contracts	Total
Investments income allocated to insurance contracts	2,471,900	2,471,900
Less: Interest credited to technical provisions	1,695,267	1,695,267
Profit or loss on interest	**776,633**	**776,633**
Release of expenses from premiums and technical provisions	242,107	242,107
Operating expenses	390,996	390,996
Profit or loss on expenses	**-148,889**	**-148,889**
Profit or loss on probability rate systems	57,869	57,869
Profit or loss on technical analysis	**57,869**	**57,869**
Total profit or loss on assumptions	**685,613**	**685,613**
Profit sharing:		
Contractual	-438,862	-438,862
Dependent on operating profits	37,568	37,568
Amortisation of interest rate rebate	-21,533	-21,533
Total amount made available for	**-422,827**	**-422,827**
Profit or loss on assumptions after profit sharing	**1,108,440**	**1,108,440**
Movement in other technical provisions, net of reinsurance	**589**	**589**
Balance on the technical account	**1,107,851**	**1,107,851**

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Leven for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board on 27 March 2019. The Management Board may decide to amend the Parent company annual accounts as long as these are not adopted by the General Meeting.

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

Rotterdam, 27 March 2019

The Management Board

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

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

R.F.M. (Robin) Buijs

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

The Supervisory Board

J.L. (Janet) Stuijt, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the General Meeting, dated 31 May 2019.

Independent auditor's report

Independent auditor's report

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

Report on the audit of the 2018 annual accounts included in the Annual Report

Our opinion

In our opinion:

- the accompanying consolidated annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Levensverzekering Maatschappij N.V. ("NN Leven") as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of NN Leven as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2018 annual accounts of NN Leven, based in Rotterdam as set out on pages 10 to 108 of the Annual Report. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1. the consolidated balance sheet as at 31 December 2018;
2. the following consolidated statements for 2018: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1. the parent company balance sheet as at 31 December 2018;
2. the parent company profit and loss account for 2018;
3. the parent company statement of changes in equity; and
4. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Audit approach

Summary

Materiality
— Materiality of EUR 100 million. This is in line with 2017. — Based on core equity: shareholders' equity minus revaluation reserve (1%)

Audit scope
— 95% of core equity, 99% of total assets and 94% of profit before tax covered by audit procedures performed by group audit team and by component auditors

Key audit matters
— Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT) — Unit-linked exposure — Solvency II capital and risk management disclosures

Opinion
Unqualified

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 100 million (2017: EUR 100 million). The materiality is determined with reference to core equity (shareholders equity minus the revaluation reserves) and amounts to 1% (2017: 1%). We continue to consider core equity as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of a life insurance company. We believe that core equity is a relevant metric for assessment of the financial performance of NN Leven. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Supervisory Board that misstatements in excess of EUR 5 million (2017: EUR 5 million), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Leven is a wholly owned subsidiary of NN Group N.V. and is by itself a group company of several subsidiaries, which are related to asset management activities (as set out in Note 37). The financial information of the subsidiaries is included in the annual accounts of NN Leven.

Because we are ultimately responsible for the audit opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the subsidiaries. This resulted in a coverage of 95% of core equity, 99% of total assets and 94% of profit before tax.

For the remaining subsidiaries, we performed analytical procedures at the aggregated group level in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining subsidiaries.

Independent auditor's report Continued

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

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

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

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we use the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty, and to compliance with laws and regulations.

Fraud risk

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In this risk assessments we made use of our forensic specialists.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to the revenue recognition;
- fraud risk in relation to management override of controls.

Based on our analysis of fraud risk factors we have not identified and evaluated any other fraud risks.

Our audit procedures included an evaluation of the internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of (high risk) journal entries.

Our procedures to address fraud risks did not result in significant findings.

Compliance with laws and regulations

We also assessed factors related to the risk of non-compliance with laws and regulations, which could have a direct or indirect impact on the annual accounts.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts through discussion with management and the Audit Committee of the Supervisory Board. We discussed with them the policies and procedures regarding compliance with these laws and regulations. We communicated identified laws and regulations throughout our team and remained alert on any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Firstly, NN Group is subject to laws and regulations that directly impact the annual accounts, including financial reporting, Solvency II and taxation. We assessed the extent of compliance with these laws and regulations as part of our audit of the annual accounts. For Solvency II we refer to Key Audit Matter 3, 'Solvency II capital and risk management disclosures'.

Secondly, NN Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation. We identified the following areas as most likely to have such an effect: wet financieel toezicht (wft), anti-money laundering regulation and data privacy regulation (GDPR). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations, which we performed, to inquiry of management and those charged with governance and inspection of regulatory and legal correspondence.

We are not responsible for preventing non-compliance and cannot be expected to detect all non-compliance with laws and regulations.

Our procedures to address the risk of non-compliance to laws and regulations did not result in significant findings.

Our key audit matters

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

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

1. Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)

Description

NN Leven has insurance contract liabilities of EUR 70 billion representing 91% of its total liabilities. The valuation of the insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the RAT.

The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of the expected future cash flows. The RAT in respect of the individual and group pension business requires the application of significant management judgement in setting the assumptions related to longevity, expense and reinvestment rate. Given the financial significance and the level of judgement required, we considered this a key audit matter.

Our response

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

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

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

— Assessment of the appropriateness of assumptions used in the valuation of the individual life and pension contracts by reference to company and industry data and expectations of investment returns, future longevity and expense developments.

— Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT.

— Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the actuaries of NN Leven in that regard.

— Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2018.

Our observation

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

We note that the unrealised revaluations on available for sale investments backing the insurance contract liabilities are recorded in shareholders equity and represent a significant part of the revaluation reserve. To the extent that available for sale investments are being sold, the excess in the reserve adequacy would decrease. If these unrealised revaluations were to be fully realised, the capital gains would only be partly available to shareholders, since a portion of the gains would be required to strengthen the insurance reserves in order to remain adequate.

2. Unit-linked exposure

Description

Holders of unit-linked products, or consumer protection organisations on their behalf, have filed claims or initiated legal proceedings against NN Group and/or NN Leven and may continue to do so. A negative outcome of such claims and proceedings, settlements or any other actions to the benefit of the customers by other insurers or sector-wide measures, may affect the (legal) position of NN Leven and could result in substantial financial losses relating to the compensation. Management assessed the financial consequences of these legal proceedings under both the EU-IFRS and the Solvency II reporting framework and concluded that these cannot be reliably measured, estimated or quantified at this point. Refer to Note 36 of the annual accounts.

Due to the potential significance and management judgement that is required to assess the developing fact pattern, we consider this a key audit matter.

Our response

Our audit procedures primarily consisted of the following:

- Assessment of the governance, processes and internal controls with respect to the unit-linked exposures within NN Leven.
- Inspection of the documentation and a discussion about the unit-linked exposures with management and its internal legal advisor.
  These procedures took into account the NN Group's specific developments as well as broader market developments in 2018.
- Obtaining lawyers letters of the external lawyers that are engaged by NN Group in relation to the defense in the so-called collective cases (Woekerpolis.nl, Consumentenbond and Wakkerpolis). We assessed the professional competency, capability and objectivity of these external lawyers. We used the lawyers letters to obtain external confirmation over management's judgements in relation to the related (collective) exposures.
- Obtaining an understanding of the proposed new legislation on mass damage claims, that was approved by the Dutch House of Representatives (Tweede Kamer), and that is now submitted for approval to the Dutch Senate (Eerste Kamer) and how that might impact management's judgements of the exposure.
- Assessment of the recognition and measurement requirements to establish provisions under NN Leven's EU-IFRS accounting principles and the Solvency II framework for the calculation of the Solvency II ratio.
- Evaluation of the unit-linked disclosure in Note 36 Legal proceedings of the annual accounts, where we focused on adequacy of the disclosure of the related risks and management's judgements.

Independent auditor's report Continued

Our observation

Overall we found that management's assessment that the financial consequences of the unit-linked exposure cannot be reliably measured and therefore the fact that no provision is recognised in the 31 December 2018 balance sheet (for both EU-IFRS and Solvency II), is sufficiently substantiated.

We considered the disclosure of the exposure in Note 36, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

3. Solvency II capital and risk management disclosures

Description

Solvency II information is considered to be an important addition to the information provided on an IFRS basis. We refer to Notes 42 and 43 of the annual accounts for the disclosures on risk management and capital management.

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

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

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

Our response

We obtained an understanding of the company's application and implementation of the Solvency II directive. In designing our audit approach we have set a separate materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 100 million (2017: EUR 100 million).

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM by the Dutch regulator, DNB) and analytical controls. These internal controls covered, amongst other:

- whether the calculations of the market value balance sheet, Own Funds and SCR were accurate and prepared in accordance with the Solvency II directive and in accordance with the PIM as approved by DNB.
- the appropriateness of assumptions used for the calculations of market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice.
- the adequacy of the quantitative and qualitative disclosures of the Solvency II Capital Requirements including disclosure on interpretation of legislation and related uncertainty.
- the functioning of the Solvency II key functions on risk management and actuarial function.

Independent auditor's report Continued

Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others the following substantive procedures:

- Verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial and valuation specialists.
- Verifying the accuracy and completeness of data used to calculate the best estimate liability and SCR.
- Assessing the appropriateness of evidence used and judgement applied in assumption setting by NN Leven for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the recoverability test. We performed detailed procedures to verify that these calculations correctly took into account changes in the Dutch tax legislation that were enacted in December 2018;
- Analysing the outcome of the internally prepared calculations and analysis of the movements in the Solvency II capital position during the year and sensitivities as at 31 December 2018 and discussing the outcome with the actuaries of NN Leven.
- Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts.
- Verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB. We refer to Note 43.

Our observation

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

We also found the Solvency II capital and risk management disclosures to be adequate. We refer to Notes 42 and 43 of the annual accounts.

Report on the other information included in the Annual Report

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

- Composition of the Boards;
- NN Group and NN Leven at a Glance;
- Report of the Management Board (including Corporate governance); and
- Other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

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

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

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

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

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

Report on other legal and regulatory requirements

Independent auditor's report Continued

Engagement

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

No prohibited non-audit services

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

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the Supervisory Board for the annual accounts

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

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

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

Our responsibilities for the audit of annual accounts

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

Utrecht, 27 March 2019

KPMG Accountants N.V.

W. Teeuwissen RA

Appropriation of result

Appropriation of result

The result is appropriated pursuant to article 21 of the articles of association of NN Leven, the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting having heard the advice of the Management Board and the Supervisory Board. Reference is made to Note 11 'Equity' for the proposed appropriation of result.

Guidelines profit sharing for policies with a participation feature

Guidelines profit sharing for policies with a participation feature

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

Legal merger of NN Leven and RVS Leven

On 28 December 2011, NN Leven merged with RVS Leven. This merger has not led to any changes in the existing contractual rights and obligations of policyholders. The profit sharing for policies with a participation feature was not affected by this merger either. The existing profit-sharing schemes for policies with a participation feature, in both the pre-merger NN Leven portfolio and the pre-merger RVS Leven portfolio, will remain unchanged. The principles and methods of these schemes differ from each other. The administrative and management measures needed to ensure these schemes can be maintained were taken prior to the merger.

Both profit-sharing schemes stipulate that profit appropriation is to be performed in accordance with NN Leven's current articles of association. These articles of association were left unchanged during the merger, but were changed per 13 December 2013 and per 23 March 2015. However, the content of the articles stipulating the appropriation of profit remained unchanged, only the numbering of these articles changed. The articles of association of (the former) RVS Leven contained comparable provisions governing profit appropriation

Article 21, paragraph 3 (formerly article 20, paragraph 2) of the articles of association stipulates that the appropriation of the profit is determined by the General Meeting after having heard the advice of the Management Board and the Supervisory Board. Article 21, paragraph 4 (formerly article 20, paragraph 3) of the articles of association stipulates that the General Meeting can, having heard the Management Board and the Supervisory Board, decide on a unanimous vote to set apart a portion of the profits for certain insurance policies with a participation feature. The Management Board sets the criteria determining how any profit separated in this way should be subdivided among the different insurance policies and the manner in which this profit will be made available.

In connection with the decision to maintain the existing profit-sharing schemes of NN Leven and (the former) RVS Leven, two guidelines exist for the determination of profit sharing for policyholders by the General Meeting: one guideline for insurance policies taken out with NN Leven prior to the merger, and one guideline for insurance policies taken out with RVS Leven prior to the merger. The guideline for NN Leven also applies to insurance policies with a participation feature taken out with NN Leven after the merger

Legal merger of NN Leven and NN Services

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

Contact and legal information

Contact us

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

Disclaimer

Small differences are possible in the tables due to rounding. Certain of the statements in this 2018 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Leven's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the eurozone, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations, (13) changes in the policies of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to NN Leven of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Leven's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Leven in this Annual Report speak only as of the date they are made, and, NN Leven assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.