2016 Solvency and Financial Condition Report

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Solvency and Financial Condition Report

Summary

Summary

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

This Solvency and Financial Condition Report ('SFCR') provides public quantitative and qualitative disclosures for Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven') on Solvency II as required by the Solvency II legislation. NN Leven already discloses most of the information that is required to be included in the SFCR in its 2016 Annual Report. In order to ensure the most transparent and user-friendly approach, the information that is already included in the Annual Report is not duplicated in this SFCR. Therefore, this SFCR is prepared as a supplement to NN Leven's Annual Report. It includes all information required to be disclosed in the SFCR, either through a specific reference to the Annual Report or as supplemental information.

As required by the Solvency II legislation, this SFCR follows the required standard chapter layout.

The amounts disclosed in this SFCR are, consistent with the amounts in the Annual Report, in thousands of euros unless stated otherwise.

NN Leven is required to submit so-called Quantitative Reporting Templates ('QRTs') to its supervisor DNB. A subset of these QRTs, which are required to be publicly disclosed and which provide quantitative information in accordance with Solvency II as at 31 December 2016, are included in the appendix to this SFCR. To comply with the Solvency II legislation, the amounts in these QRTs are in thousands of euros.

The Solvency ratios, as well as the amount of own funds and Solvency Capital Requirement ('SCR') disclosed in the SFCR are not final until filed with the regulators.

Material changes in 2016

No material changes occurred in the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management over the reporting period.

Acquisition Delta Lloyd

Reference is made to the section 'NN Group and NN Leven at a Glance- Possible impact Delta Lloyd acquisition' in the 2016 Annual Report of NN Leven and note 42 'Other events- Offer Delta Lloyd' in the 2016 Consolidated annual accounts of NN Leven.

NN Leven's Solvency II Capital ratio

During 2016 the solvency of NN Leven decreased from 216% to 203% on the basis of distributions to the shareholders, economic and business movements in the eligible own funds and movements in the required capital (SCR).

Business and Performance

A. Business and Performance

Introduction

This chapter of the SFCR contains general information on NN Leven, a simplified group structure and NN Leven's financial performance over 2016.

A.1 Business

General

Reference is made to the section 'NN Group and NN Leven at a Glance- NN Leven' in the 2016 Annual Report of NN Leven for the legal form of NN Leven and NN Leven's position within the legal structure of NN Group.

The supervisory authority responsible for financial supervision of NN Leven:

Dutch Central Bank (DNB)
Westeinde 1
1017 ZN Amsterdam
The Netherlands

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

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

Information on the appointment of the external auditor is included in the section 'Corporate governance- External auditor' in the 2016 Annual Report of NN Leven.

Qualifying holdings

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

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

RRJ Capital II Ltd qualifies as holder of a qualifying holding in NN Group. On 19 December 2016, RRJ Capital II Ltd indirectly held 10.26% of the issued shares in NN Group via RRJ Capital Master Fund II L.P, Foxdale Asset Holding Ltd, Mayfair Asset Holding Ltd., Newton Asset Holding Ltd, Berkeley Asset Holding Ltd, Glasgow Asset Holding Ltd and Hemingway Asset Holding Ltd.

On 19 December 2016, RRJ, its owners and certain associated companies, received a Declaration of No Objection ('DNO') from the Dutch Central Bank ('DNB'), as referred to in section 3:95 of the Dutch Financial Supervision Act ('WfT'), to hold an interest in NN Group not exceeding 12.5% of the issued share capital of NN Group. On the date the DNO was issued by DNB, RRJ held an interest of 10.26% in the issued share capital of NN Group.

The immediate and ultimate owner of RRJ Capital II Ltd is Mr Ong Tiong Sin. RRJ Capital is a private equity firm specialising in special situations, buyouts and growth capital investments. It seeks to invest in energy, agriculture, healthcare, food, natural resources, consumer products, real estate and financial institutions. The firm targets investing in Asia with a focus on China and South East Asia. It invests between USD 50 million and USD 3 billion per deal. RRJ Capital was founded in February 2011 and is based in Hong Kong with an additional office in Singapore.

Material lines of business and related undertakings

Reference is made to section 'NN Group and NN Leven at a Glance- NN Leven' and section 'Report of the Management Board' in the 2016 Annual report of NN Leven for more information on the material lines of business of NN Leven.

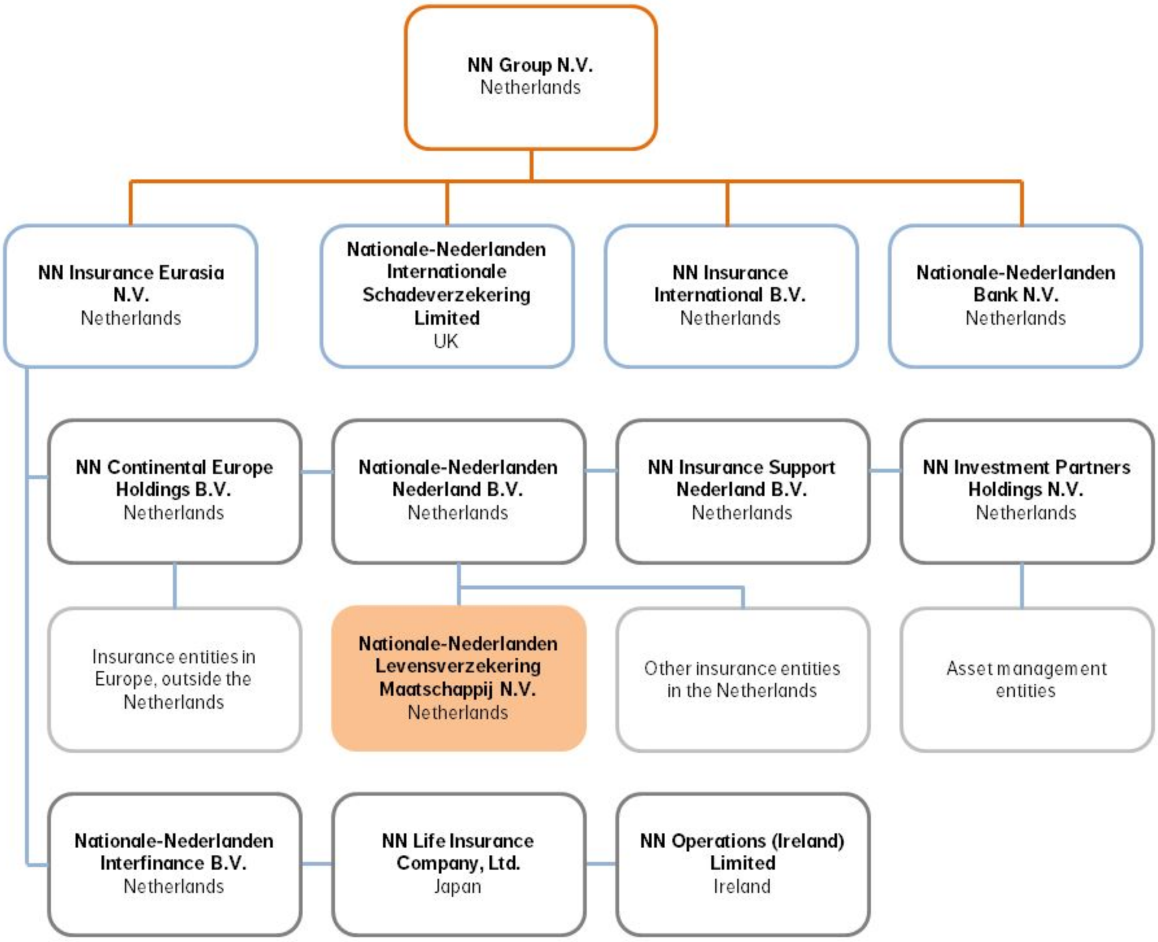
For information on any significant business events or other events that have occurred over the reporting period reference is made to section 'Report of the Management Board- Financial developments' in the 2016 Annual Report of NN Leven.

Reference is made to Note '38 Principal subsidiaries' in the 2016 Consolidated annual accounts of NN Leven for a list of material related undertakings and a description of the legal structure of NN Leven. Reference is made to the section 'Corporate governance' of the 2016 Annual Report of NN Leven for information on the governance and organisational structure of NN Leven.

Business and Performance
Continued

Simplified group structure

The simplified group structure as at 31 December 2016 is as follows:



A.2 Underwriting Performance ;A.3 Investment Performance

NN Leven's operating result is analysed through a margin analysis, which includes the investment margin (investment performance), fees and premium-based revenues and the technical margin (underwriting performance). For information on underwriting and investment performance per material line of business, reference is made to the section 'Report of the Management Board- Financial development' in the 2016 Annual Report of NN Leven. For the underwriting performance, reference is made to QRT S.05.01.02 'Premiums, claims and expenses by line of business' and QRT S.05.02.01 'Premiums, claims and expenses by country' in the Appendix.

Further reference is made to Note 18 'Investment income' in the 2016 Consolidated annual accounts of NN Leven for information on income and expenses arising from investments by asset class and the components of such income and expenses.

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

Information on investment in securitisations is included in Note 39 'Structured entities' in the 2016 Consolidated annual accounts of NN Leven. Most of the investments in securitisations issued by third parties relate to debt instruments of structured entities regarding asset-backed securities ('ABS'), classified as loans. Further reference is made to Note 4 'Available-for-sale investments' in the 2016 Consolidated annual accounts of NN Leven for more information on these investments in structured entities.

A.4 Performance of other activities

Other material income and expenses incurred over 2016 are disclosed in notes 17-25 in the 2016 Consolidated annual accounts of NN Leven and the section 'Report of the Management Board- Financial development' in the 2016 Annual Report of NN Leven. Leasing arrangements are included in Note 25 'Other operating expenses' and future rental commitments are disclosed in Note 36 'Contingent liabilities and commitments' in the 2016 Consolidated annual accounts of NN Leven.

A.5 Any other information

Reference is made to section 'Report of the Management Board- Financial development' in the 2016 Annual Report of NN Leven for any other material information regarding the business and performance of NN Leven.

Reference is made to the section 'NN Group and NN Leven at a Glance- Possible impact Delta Lloyd acquisition' in the 2016 Annual Report of NN Leven and note 42 'Other events- Offer Delta Lloyd' in the 2016 Consolidated annual accounts of NN Leven.

System of governance

B. System of Governance

Introduction

This chapter of the SFCR contains information on the system of governance of NN Leven in addition to governance information included in the 2016 Annual Report of NN Leven. The additional information includes relevant committees within the Management Board (hereafter "Board"), a description of the main roles and responsibilities of key functions and NN Leven's approach to the 'fit and proper' requirements and to the Own Risk and Solvency Assessment.

B.1 General information on the system of governance

Over the course of 2016, NN Group reviewed its system of governance and considered improvements to its control framework. As a result, an updated system of governance was put in place as of January 2017. Framework improvements will be implemented over the course of 2017. As the system of governance of NN Group also applies for NN Life, these changes in the NN Group control framework are also applicable to NN Leven.

This chapter sets out the governance and control framework effective in 2016.

Structure of governance and changes in system of governance

For a description of the structure of NN Group's administrative, management and supervisory body, reference is made to the Corporate Governance section and the Report of the Supervisory Board, both included in the NN Group 2016 Financial Report and to the NN Group website: https://www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance.htm. These sources also describe the main roles and responsibilities of these bodies, provide a brief description of the segregation of responsibilities within these bodies and describe relevant committees that exist within them.

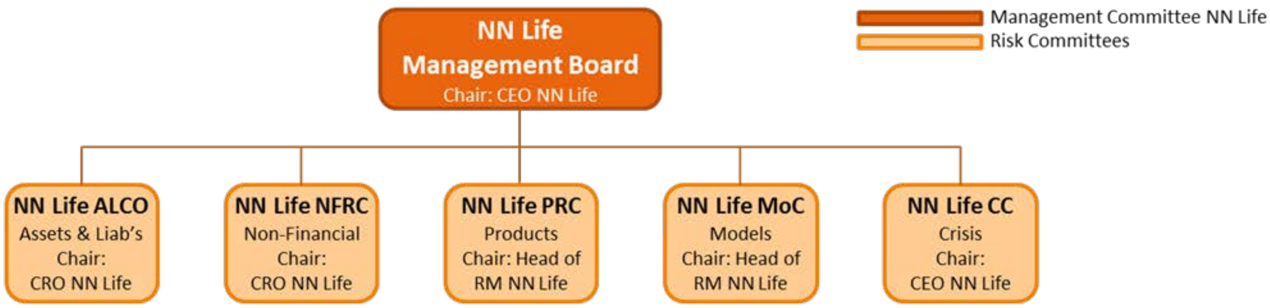
During 2016, no material changes in the system of governance were made.

Management Board committees

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

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

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



Reference is also made to Note 43 'Risk management' in the NN Leven 2016 Consolidated annual accounts of NN Leven.

Authority, resources and operational independence of key functions

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

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

Roles and responsibilities of key functions

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

For further details regarding the Solvency II key functions reference is made to Note 43 'Risk management' in the 2016 Consolidated accounts of NN Leven 2016.

Remuneration

Reference is made Note 23 'Staff expenses' as disclosed in the 2016 Consolidated annual accounts of NN Leven for information on the remuneration policy and practices regarding administrative, management and supervisory bodies and employees.

Transactions with related parties

Reference is made to Note 40 'Related parties' and Note 41 'Key management personnel compensation' in the 2016 Consolidated annual accounts of NN Leven for information about material transactions during the reporting period. Section B.7 in this SFCR contains more information on intra-group outsourcing arrangements. Transactions with people who exercise a significant influence on NN Leven and with members of the Board and Supervisory Board are disclosed in Note 41 'Key management personnel compensation' in the 2016 Consolidated annual accounts of NN Leven.

Adequacy of system of governance

The assessment of the adequacy of the system of governance of NN Leven to the nature, scale and complexity of the risks inherent to its business is disclosed in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven.

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

Reference is made to Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven for a description of how the risk management and internal control systems and reporting procedures are implemented consistently throughout NN Leven.

B.2 Fit and proper requirements

For a description of NN Leven's specific requirements concerning skills, knowledge and expertise applicable to the persons who manage NN Leven, reference is made to Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven. Requirements concerning skills, knowledge and expertise applicable to people who have other key functions, are included in the respective job profiles.

Various NN Leven policies and charters include provisions aiming to ensure that the persons who effectively run NN Leven and the persons fulfilling key functions are fit and proper. During recruitment all candidates must have the professional qualifications, knowledge and experience that are required for sound and prudent management ('fit') and be of good repute and have integrity ('proper'). In an early stage of the hiring process and preferably at the time a position has become vacant, an approval request is put forward to the external regulator (DNB or AFM).

For a description of NN Leven's process for assessing the fitness and the propriety of the persons who effectively run NN Leven, reference is made to article 1.4(f), 2.2(g) and 7(j) of the Charter of the Supervisory Board, which is available on the NN Group website: https://www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance.htm.

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

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

Description of NN Leven 's risk management system

Reference is made to Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven for a description of the risk management system comprising of strategies, processes and reporting procedures, and how NN Leven is able to effectively identify, measure, monitor, manage, and report, on a continuous basis, the risks on an individual and aggregated level, to which NN Leven is or could be exposed. In the same note, a description is included of how the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making process of NN Leven.

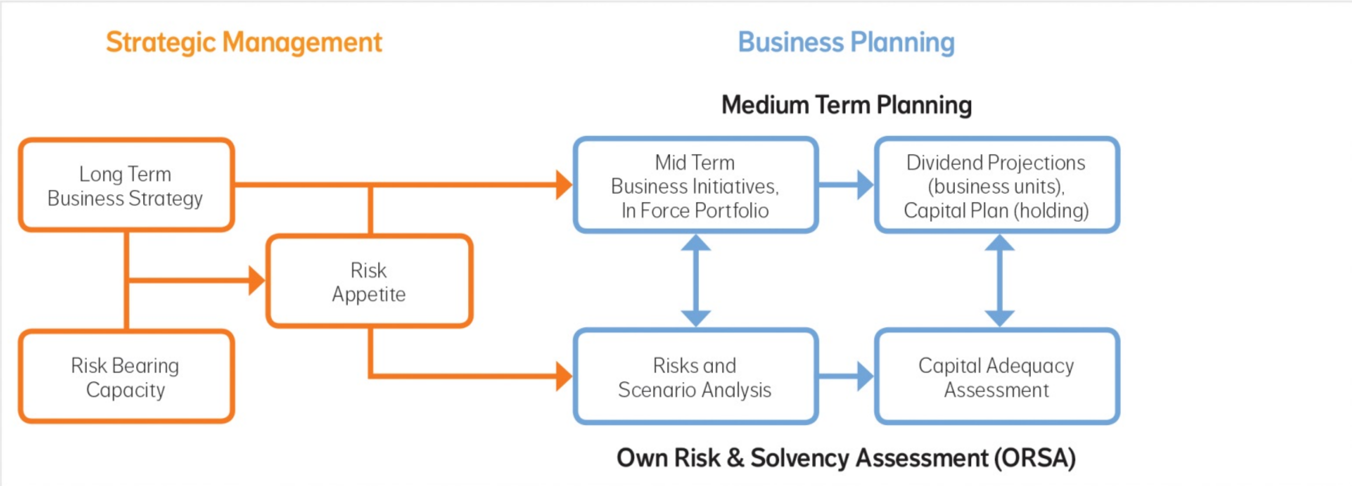
Own Risk and Solvency Assessment (ORSA)

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

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

System of Governance
Continued

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



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

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

The regular ORSA process as undertaken within NN Leven

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

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

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

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

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

System of Governance
Continued

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

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

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

Scenario testing, as well as (reverse) stress testing are required for each ORSA. When the outcomes of performed stress tests show solvency ratios dropping below 100%, realistic strategies for recovering the solvency ratio will be considered and documented in the ORSA report. For NN Leven a capital downstream can only be considered if there is no other feasible management option left.

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

Governance of NN Leven's Partial Internal Model
For the model governance and validation process, reference is made to Note 43 'Risk management' in the 2016 Consolidated accounts of NN Leven 2016.

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

B.4 The Internal control system and compliance function; B.5 Internal audit function; B.6 Actuarial function
Reference is made to Note 43 'Risk management' in the 2016 Consolidated accounts of NN Leven 2016 for a description of the implementation of the Internal control system, compliance, internal audit and actuarial function.

B.7 Outsourcing
External Outsourcing arrangements
NN Leven outsources part of its operational and IT processes to external service providers.

For such an external outsourcing arrangement, a written service level agreement is in place, setting out:

- The mutual rights and obligations of the parties
- The duties and responsibilities of all parties involved
- The Service Provider's commitment to comply with applicable local laws and regulatory requirements, applicable to the outsourced function or activity and to cooperate with the Outsourcing Entity's relevant supervisory authority with regard to the outsourced function or activity
- The Service Provider's obligation to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements
- That the Service Provider and the Outsourcing Entity can only terminate the contract with a notice period and that this notice period is to be defined yearly by both parties
- That the Outsourcing Entity is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to policy holder and other clients
- That the Outsourcing Entity reserves the right to be informed about the outsourced functions and activities and their performance by the Service Provider as well as a right to issue general guidelines and individual instructions at the address of the Service Provider, as to what has to be taken into account when performing the outsourced functions or activities

Intra-group Outsourcing arrangements
In the normal course of business, NN Leven enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NN Leven include, amongst others, its associates, joint ventures, key management personnel and the defined benefit and contribution plans. Transactions between related parties have taken place on an arm's length basis, and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

All intra-group transactions are conducted under market-compliant conditions. Included in the intra-group transactions were the following:

- Facility services carried out by group companies
- Various other shared services, including finance and information technology, carried out by group companies
- Staff of NN Leven is employed by NN Insurance Personeel B.V. NN Leven is charged for the staff expenses by NN Insurance Personeel B.V., under a service level agreement. Although these costs are not paid out in the form of salaries, they do have the character of staff expenses and they are therefore recognised as such. A staff provision for holiday entitlement and bonuses is recognised at NN Insurance Personeel B.V. Actual spending is charged to NN Leven as per the contract with NN Insurance Personeel B.V.
- The transactions in financial instruments, namely shares, bonds, loans (excluding mortgage loans) and derivatives, are conducted via a management agreement with NN Investment Partners B.V. NN Investment Partners B.V. makes use of Nationale-Nederlanden Interfinance B.V. for the execution of the transactions involving derivatives
- Transactions between NN Leven and other subsidiaries of NN Group concerning the payment of tax, as NN Group heads the fiscal unity in the Netherlands

For intra-group outsourcing arrangements, a written service level agreement - similar to the one used for external service providers- is normally in place.

B.8 Any other information

Reference is made to the section 'Corporate Governance' in the 2016 Annual report of NN Leven and the NN Group website: https://www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance for other material information regarding the system of governance of NN Leven and NN Group.

Risk profile

C. Risk Profile

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

Risk profile per risk category
Reference is made to Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven for quantitative and qualitative information on the risk profile per risk category. The following risk categories have been disclosed:

C.1 Underwriting risk
Underwriting risk is disclosed as insurance risk and business risk in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven.

C.2 Market risk
Market risk is disclosed in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven.

C.3 Credit risk
Credit risk is disclosed in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven.

C.4 Liquidity risk
Liquidity risk is disclosed in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN leven.

C.5 Operational risk
Operational risk is disclosed in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven.

C.6 Other material risks

Compliance risk
Reference is made to Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven for information on compliance risk.

Concentration risks
NN Leven does not have an appetite for risk concentration and manages concentration risk with a limit structure. During the year no limit breaches occurred. More information on the mitigation of several types of concentration risk is included in Note 43 'Risk Management' in the 2016 Consolidated annual accounts of NN Leven.

Investing assets in accordance with the 'Prudent person principle'
Asset universe: NICARP

NN Group maintains a Global Asset List, which contains all asset classes in which (subsidiaries of) NN Group are allowed to invest. Before an asset class is approved for this list, a New Investment Class Approval & Review Procedure (NICARP) must be followed.

The NICARP should describe all relevant considerations on return, risk and operational consequences that are relevant to the decision whether NN Leven should invest in the proposed investment class.

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

- NN Leven understands the investment class and the risks involved
- the systems and operational processes can handle the new investment class and support the monitoring that is required
- the asset can be priced, either through broker information, mark-to-model or otherwise
- the asset can be handled and modelled in the systems.

The main body of the NICARP request is the Executive Summary that should describe the most important aspects of the proposal in sufficient detail for the decision makers to form an opinion. It contains mandatory sections on:

- Description of the asset class

This section describes the investment class and underlying, plus the proposed investment strategy. It includes also the key strategic considerations.

Risk profile
Continued

- Risk/Return

This section describes the expected risk/ return profile and the fit with NN Leven's risk appetite. This section should include the following:

  - Fit of the risk/return profile with the Strategic Asset Allocation. This includes impact on Return on Equity, Earnings at Risk and Capital buffers.
  - Expected return for the investment class and performance benchmarks (indicating also the methodology used to determine this)
  - Expected volatility of earnings, market value and Capital Requirements and expected Return on Equity.
  - Stressed return and volatility measures based on different economic scenarios. In addition, an analysis of event risk and tail events.

- Finance and control

This section describes finance and control issues including consequences for the balance sheet and profit and loss account for at least one MTP period. This section should include the following:

  - Impact on earnings and allocation of earnings under all relevant accounting frameworks
  - Impact on value metrics under all relevant accounting frameworks
  - Impact on cash position and cash management
  - Impact on capital position and potential consolidation issues accounting and reporting consequences, including the place in the fair value hierarchy (1: quoted price, 2: valuation with observable inputs, 3: valuation with unobservable inputs) Tax implications, including reference to any internal/ external tax reviews or opinions

- Investment Risk Management

This section describes the Risk Management considerations for the new investment class, including pricing and legal issues. It should contain the underlying risks of the investment class, and how these are measured, monitored and reported.

  - Pricing of the new investment class, including the pricing model and the process for updating. Reference to the validation of the pricing models by an independent party.
  - Impact on Market Risk (Foreign exchange, Interest rate, Equities, Real Estate, Spread) and Counterparty Default Risk, including correlations and diversification effects with the existing asset portfolio.
  - Concentration risk, on issuer level and per investment class
  - Liquidity in the market, event risk and assessment of collateral
  - Geography and Industry specific risks
  - NN Leven's Reputational Risk
  - Exit strategy if expectation are not met, including triggers for this.

- Operational Risk Management

This section describes the operational requirements for the new investment class regarding process and systems. This also includes expense/ resource implications. The section should include the following:

  - Assessment of the ability of current operational and reporting systems to handle the investment class; Potential incremental software, hardware requirements, including costs
  - Assessment of the ability of current staff to handle the investment class, availability of the required expertise in; Potential incremental investments in training of existing staff or hiring new employees
  - Assessment of processes and procedures, including controls and authorisation matrices; Potential new procedures, updates and adjustments required
  - Other potential operational risks
  - Reference to an opinion by Operational Risk Management on the operational risk assessment

- Legal issues and considerations

This section describes the legal issues and considerations for the new investment class. This section includes at least the following:

  - Legal documentation required for the new investment class
  - Impact on legal entity structure, including any filings and licenses required
  - Reference to an opinion by Legal on the legal risk assessment

- Investment Mandates

This section should describe the impact of the new investment class on the Investment Mandates. It should indicate which Investment Mandates will be impacted and in what way (e.g. changes required).

- Monitoring and reporting

This section should describe how the monitoring and reporting required for the new investment class.

Investment decisions: GITA

The intention of a GITA (Global Investment Transaction Approval) request is to obtain approval for a specific investment (transaction or program). The GITA should always be combined with the approved investment approval. The GITA request itself is an overlay form on this investment proposal that should allow NN Group to validate that the proposed investment is in line with NN Group risk appetite and NN Leven strategic asset allocation.

Risk profile
Continued

The GITA request should contain at least the following:

- Short description of the investment, underlying assets and collateral, including:
  - Main considerations for determining whether or not to do this investment
  - Fit with Strategic Asset Allocation and Risk Appetite
  - Concerns from the earlier approved NICARP and how these are addressed
  - Any deviations from earlier approved policies, conditions or restrictions should be explicitly mentioned
  - Advice for conditions under which the investments should be allowed
- Key data and metrics that should be included are:
  - Amount to be invested
  - Expected market return and book return
  - Capital Requirement
  - Return on Equity (based on maximum of local and group level capital requirement)
  - Earnings at Risk
  - Regulatory constraints (Own Funds at Risk, Cash Capital at Risk)
  - The counterparty and economic ultimate parent, including their (external) credit rating
  - Existing/proposed counterparty limits for this investment class on group and NN Leven level
  - Existing/ proposed portfolio limits for this investment class on group and NN Leven level

Governance of investments
NN Leven delegated the management of the investments to a dedicated Investment Office at NN Group level. Within NN Leven the second line function Investment Risk Management reports to the Head of Risk management who then reports to the CRO of NN Leven. Investment office and the CRO meet regularly in the NN Leven Asset & Liability Management Committee (ALCO), and in the Group Risk & Finance Committee (RFC) for the most material issues. Operational activities regarding investments are performed by NN Investment Partners, who also provides (unsollicited) advice on proposed or current investments.

All investments related activities are performed within the boundaries as set by NN Group Policies. These include among others the following:

- Asset-Liability Management ('ALM') Policy
- NICARP, GITA and Global Asset List
- Investment Mandate Policy
- Concentration Risk Policy
- Hedging Policy

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

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

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

Group Investment Committee
The main scope of the Group Investment Committee ('GIC') is optimising the investment performance, the investment strategy and new investment ideas. GIC will review the investment strategy and approve investment mandates within the risk limits. The GIC decides on investment proposals within the restrictions and limits/thresholds approved by the NN Leven ALCO.

Asset & Liability Management Committee
The NN Leven ALCO has a similar set up as the Group ALCO with comparable responsibilities. The main responsibility of the ALCO is the oversight of risks related to the matching of assets and liabilities (Asset & Liability Management, ALM) and the consequences for the balance sheets and P&L which NN Leven manages. It includes risks related to the prevailing market circumstances and the ALCO discusses possible adverse consequences. The ALCO also monitors and advises on insurance and business risks that can impact the balance sheet or P&L. The ALCO operates within the delegated authority of the NN Leven Board.

The Hedging policy requires a hedge implementation document to be written for every hedge program with a notional greater than EUR 100 million. The hedging document describes amongst others the control framework for monitoring and reporting, which is governed by the NN Leven ALCO. Hedging programs are reviewed on an annual basis.

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

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

Sensitivity analysis

Reference is made to Note 43 'Risk Management' in the 2016 Consolidated annual accounts of NN Leven for a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

Risk exposure from off-balance sheet positions and transfer of risk to special purpose vehicles

Reference is made to Note 43 'Risk management' in the 2016 Consolidated annual accounts regarding the risk exposure of NN Leven, including the exposure arising from off-balance sheet positions and describing the measures used to assess these risks. As at 31 December 2016, no material risks were transferred to special purpose vehicles outside NN Group.

C.7 Any other information relevant to the risk profile of NN Leven

Techniques used for mitigation of risk

Reference is made to Note 43 'Risk management' of the 2016 Consolidated annual accounts of NN Leven for a description of the techniques used for mitigating risks and the processes for monitoring the continued effectiveness of these risk mitigation techniques.

No other material information is relevant to the risk profile of NN Leven.

Valuation for Solvency purposes

D. Valuation for Solvency Purposes

Introduction

This chapter of the SFCR contains information on the valuation for solvency purposes of assets, insurance liabilities and other liabilities of NN Leven and explains the differences with their valuations in the in the 2016 Consolidated annual accounts of NN Leven.

Reconciliation IFRS Balance sheet to Solvency II Balance sheet

As at 31 December 2016.	IFRS	Consolidation Scope	Presentation differences	Valuation differences	Solvency II
Assets					
Cash and cash equivalents	182,432	-117,300	-5,389		59,743
Financial assets at fair value through profit or loss and Available-for-sale investments	70,211,713	1,181,818	866,565	173,610	72,433,706
Loans	19,450,535	-2,031,327	65,631	1,394,414	18,879,253
Reinsurance contracts	1,157,953			-17,803	1,140,150
Associates and joint ventures	2,676,562	2,311,755		5,141	4,993,458
Real estate investments	2,029,542	-2,029,542			0
Property and equipment	14	1,312			1,326
Intangible assets	9,078			-9,078	0
Deferred acquisition costs	243,481			-243,481	-0
Other assets	2,354,526	-267,452	-950,310	792,898	1,929,661
Total assets	**98,315,836**	**-950,737**	**-23,503**	**2,095,701**	**99,437,297**
Equity					
Shareholders' equity (parent)	15,894,518			-9,157,145	6,737,373
Minority interests	621,392	-621,392			0
Undated subordinated notes	450,000		-450,000		0
Total equity / Excess of assets over liabilities	**16,965,910**	**-621,392**	**-450,000**	**-9,157,145**	**6,737,373**
Liabilities					
Subordinated debt	600,000		481,559	73,248	1,154,807
Other borrowed funds	1,978,068	7,470	-1,536	111	1,984,112
Insurance and investment contracts	73,453,835			13,417,819	86,871,655
Financial liabilities at fair value through porift or loss	745,525	-864	12,992		757,653
Other liabilities	4,572,498	-335,951	-66,517	-2,238,332	1,931,698
Total liabilities	**81,349,926**	**-329,345**	**426,497**	**11,252,846**	**92,699,924**
Total equity and liabilities	**98,315,836**	**-950,737**	**-23,503**	**2,095,701**	**99,437,297**

Reference is made to the 2016 Consolidated annual accounts of NN Leven for more detailed information on the IFRS Balance sheet. Reference is made to QRT S.02.01.02 'Balance sheet' in the Appendix for the full Solvency II Balance sheet. The values in these tables may differ from those included in Note 43 'Risk Management' in the 2016 Consolidated annual accounts of NN Leven due to classification and valuation differences to reflect a risk management view.

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

The valuation and presentation differences between IFRS and Solvency II resulting from differences in accounting principles and methods are explained in the sections below. For items where no valuation difference occurred, reference is made to Note 1 'Accounting policies', Note 28 'Fair value of financial assets and liabilities' and Note 29 'Fair value of non-financial assets' in the 2016 Consolidated annual accounts of NN Leven for a description of the bases, methods and main assumptions used for their valuation.

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

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

D.1 Assets

Accounting principles, methods and main assumptions used

In general, Solvency II valuation requires a market consistent approach to the valuation of assets and liabilities. The default reference framework for valuing assets and liabilities, other than technical provisions, is IFRS as endorsed by the European Union ('IFRS-EU'). The exception is if the IFRS valuation principle does not reflect a market consistent valuation (e.g. amortised cost). For main assumptions used in fair valuing assets, reference is made to Note 28 'Fair value of financial assets and liabilities' and to Note 29 'Fair value of non-financial assets' in the 2016 Consolidated annual accounts of NN Leven.

Cash and cash equivalents

In the IFRS balance sheet, cash and cash equivalents are reported at the notional amount. In the Solvency II balance sheet, cash and cash equivalents are reported at market value. There are no significant valuation differences between IFRS and Solvency II for cash and cash equivalents as the market value is not significantly different from the notional value. Total presentation differences of EUR -5 million as at 31 December 2016 are caused by the presentation of short term deposits and money market funds as investments (excluding loans) in the Solvency II balance sheet. Differences due to a different scope of consolidation amounted to EUR -117 million as at 31 December 2016.

Investments (excluding loans)

In the IFRS balance sheet, investments are reported at fair value. In the Solvency II balance sheet, investments are reported at market value. There are no significant valuation differences between IFRS and Solvency II for investments as fair value generally equals market value. Presentation differences of EUR 867 million as at 31 December 2016 are caused by:

- Presentation of short term deposits and money market funds as investments under Solvency II, instead of their inclusion in cash and cash equivalents under IFRS
- Presentation of accrued interest as part of the investments, instead of a separate presentation as accrual under IFRS. Solvency II requires accrued interest to be presented as part of the investments ('dirty market value') and not separately as other assets as in the 2016 Consolidated annual accounts of NN Leven ('clean market value').
- Presentation of certain Asset Backed Securities as investments under Solvency II, instead of their presentation as loans in the 2016 Consolidated annual accounts of NN leven.

Differences due to a different scope of consolidation amounted to EUR 1,182 million as at 31 December 2016.

Loans

In the IFRS balance sheet, loans are reported at amortised cost. In the Solvency II balance sheet, loans are reported at market value. For loans that are repriced frequently and have had no significant changes in credit risk, the carrying values in the 2016 Consolidated annual accounts of NN Leven represent a reasonable estimate of the market value for Solvency II. For other loans the market value is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions. The market value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Valuation differences between IFRS and Solvency II for loans represents the difference between amortised cost and market value of EUR 1,394 million as at 31 December 2016.

Presentation differences of EUR 66 million as at 31 December 2016 are caused by:

- The different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the loans ('dirty market value') and not separately as other assets as in the 2016 Consolidated annual accounts of NN Leven ('clean market value').
- The presentation of certain Asset Backed Securities as investments (excluding loans) under Solvency II, instead of their presentation as loans in the 2016 Consolidated annual accounts of NN leven.

Differences in loans recognised in the IFRS and the Solvency II Balance sheets due to a different scope of consolidation amounted to EUR -2,031 million as at 31 December 2016.

Reinsurance contracts

Reference is made to section D2 'Technical provisions'.

Associates and joint ventures (Holdings in related undertakings)

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

In the Solvency II balance sheet, non-Solvency II entities are recognised as associates and measured at the local regulatory capital in accordance with the local (sectoral) rules. Valuation differences of EUR 5 million as at 31 December 2016 represents the difference between the value of the associates under IFRS and the local regulatory capital of these entities.

Valuation for Solvency purposes
Continued

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

Differences due to a different scope of consolidation amounted to EUR 2,312 million as at 31 December 2016.

Real estate investments
In the IFRS balance sheet, real estate investments are reported at fair value. In the Solvency II balance sheet, real estate investments are reported at market value. There are no significant valuation differences between IFRS and Solvency II for real estate investments as fair value generally equals market value. Differences in real estate investments recognised in the IFRS and the Solvency II Balance sheets due to a different scope of consolidation amounted to EUR -2,030 million as at 31 December 2016.

Property and equipment
In the IFRS balance sheet, property in own use is reported at fair value. In the Solvency II balance sheet, property in own use is reported at market value. There are no significant valuation differences between IFRS and Solvency II for property in own use as fair value generally equals market value. In the IFRS balance sheet, equipment is reported at cost less depreciation. In the Solvency II balance sheet, equipment is reported at market value. There are no significant valuation differences between IFRS and Solvency II for equipment, as market value is generally not significantly different from depreciated cost. Differences in property and equipment recognised in the IFRS and the Solvency II Balance sheets due to a different scope of consolidation amounted to EUR 1 million as at 31 December 2016.

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

Deferred acquisition costs (DAC)
Deferred Acquisition Costs are not recognised for Solvency II purposes.

Other assets
In the IFRS balance sheet, other assets are reported at their notional amounts. In the Solvency II balance sheet, other assets (with the exclusion of deferred taxes) are reported at market value. There are no significant valuation differences between IFRS and Solvency II for other assets as the market value is not significantly different from the notional value.

Presentation differences of EUR -950 million as at 31 December 2016 consist of the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing investments ('dirty market value') and not separately as other assets as in the 2016 Consolidated annual accounts of NN Leven ('clean market value').

Valuation differences between IFRS and Solvency II for other assets consist of the valuation difference in deferred taxes.

Differences in other assets recognised in the IFRS and the Solvency II Balance sheets due to a different scope of consolidation amounted to EUR -267 million as at 31 December 2016.

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

Reference is made to Note 27 'Taxation' of the 2016 Consolidated annual accounts of NN Leven for more information on the origin of the recognition of deferred tax assets and the amount and expiry date of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the IFRS balance sheet.

In the Solvency II balance sheet, deferred tax assets and liabilities are recognised and valued in conformity with IFRS. However, the differences in valuation of assets and liabilities as set out in sections D.1 'Assets', D.2 'Technical provisions' and D.3 'Other liabilities' result in an additional EUR 3,030 million of deferred tax assets (deferred taxes assets EUR 793 million, deferred taxes liabilities EUR -2,237 million) recognised in the Solvency II balance sheet as at 31 December 2016.

Changes in valuation bases
During 2016, no material changes were made to the recognition and valuation bases, or estimations used, in the measurement of assets on the Solvency II balance sheet.

D.2 Technical provisions

Value of the technical provisions

The value of technical provisions, including the amount of the Best Estimate of Liabilities ('BEL') and the Risk Margin ('RM') is disclosed below separately for each material line of business as at 31 December 2016:

Value of technical provisions by Business Line

	BEL	Risk margin	Technical provisions
Technical provision by Solvency II Business line:			
1. Life	66,688,748	3,009,598	69,698,346
2. Life similar to health	11,101	177	11,278
3. Index-linked and Unit-linked	16,518,486	643,545	17,162,030
Total	**83,218,335**	**3,653,320**	**86,871,655**

Bases, methods and main assumptions used for solvency valuation

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

Best estimate of liabilities

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

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

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

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

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

Reinsurance and other recoverables

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

Risk margin

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

With the driver approach, the relevant sub-risk SCRs - either Internal Model or Standard Formula - are projected using appropriate risk drivers, multiplied by the cost of capital of 6%, then discounted at the relevant risk free rate term structure. The sub-risk market value margins are aggregated using the relevant diversification factors. Note that this is a simplification as Solvency II requires the individual SCRs to be diversified at each future point in time. NN Leven's simplification does not lead to a material misestimation of the RM (less than 1%).

Assumptions

Non-financial assumptions

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

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

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

Financial assumptions

NN Leven follows EIOPA requirements in determining the basic risk-free rates and the VOLA to determine the relevant currency specific risk free rate term structure for valuation of Technical Provisions. Because EIOPA curves are not available in time for NN Leven to start their valuations, NN Leven follows the EIOPA methodology to independently produce the curves. These are then compared to the published EIOPA curves when these are made available to ensure consistency between the EIOPA and the NN Leven manufactured curves. At year-end 2016, the EIOPA and NN Leven curves were consistent (i.e. identical).

Changes in assumptions

During 2016, NN Leven reviewed their best estimate assumptions and updated them where necessary. The most material changes were to mortality, reducing Own Funds and updates to the trend uncertainty driver used in the calculation of the RM increasing the Own Funds.

Options and guarantees

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

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

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

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

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

Level of Uncertainty

For the level of uncertainty associated with the value of the technical provision, reference is made to the Own funds at risk-Insurance risk in Note 43 'Risk Management' in the 2016 Consolidated annual accounts of NN Leven.

Main differences between IFRS and Solvency II valuation of technical provisions

	IFRS	Valuation differences	Solvency II
Technical provision by Solvency II Business line:			
1. Life	57,970,646	11,727,699	69,698,347
2. Life similar to health	25,649	-14,370	11,278
3. Index-linked and Unit-linked	15,457,540	1,704,490	17,162,030
Total	**73,453,835**	**13,417,819**	**86,871,655**

Valuation for Solvency purposes
Continued

Summary of main differences between IFRS and Solvency II as at 31 December 2016
At 31 December 2016, the valuation differences between the insurance and investment contracts recognised in the IFRS balance sheet and the technical provisions recognised in the Solvency II balance sheet of NN Leven amounted to EUR 13,417 million. Methods and models used in calculating the Solvency II technical provisions and IFRS insurance liabilities differ substantially. The main valuation differences between IFRS and Solvency II are outlined below:

- Insurance liabilities in the IFRS Balance sheet are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Leven decided to continue the then existing accounting principles for insurance contracts under IFRS-EU
- The BEL in Solvency II is calculated as the expected present value of future liability cash flows using best estimate assumptions
- A RM for non-hedgeable risks is added to the BEL to establish the Solvency II technical provisions
- Different interest rates are used for calculation of insurance and investment contracts under IFRS and Solvency II. For Solvency II a risk-free interest rate curve with credit risk and VOLA where applicable is used. NN Leven does not apply a matching adjustment. For IFRS a fixed interest rate/guaranteed technical interest rate is used
- The present value of future profits is recognised in Solvency II technical provisions but not in IFRS technical provisions
- The difference between IFRS and Solvency II technical provisions is primarily reflected in the Life line of Business, where IFRS technical provisions largely reflect assumptions - interest, mortality, morbidity, expense, etc. - locked-in at policy issue, which can depart significantly from the best estimate assumptions reflected in the Solvency II provisioning.
- For index-linked and unit-linked insurance the IFRS technical provisions are equal to the fund value of these contracts. For Solvency II technical provisions, the present value of the margins is deducted from the fund value
- The valuation differences between IFRS technical provisions and Solvency II technical provisions described in the above paragraph also apply to reinsurance contracts

Volatility adjustment
NN Leven applies the yield curve as published by EIOPA for the calculation of the technical provisions under Solvency II. In line with Solvency II regulations, This yield curve includes a VOLA component. As at 31 December 2016, the level of the VOLA for the Euro currency was 13 bps.

The application of the VOLA resulted in a reduction of EUR 1.098 million in technical provisions, contributing EUR 823 million (after tax) to Basic own funds as at 31 December 2016. Excluding the VOLA from the calculation of technical provisions would reduce the eligible own funds by EUR 596 million.

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

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

The table below shows the impact of excluding both the Dynamic VOLA as well as spread risk on government bonds from the SCR, in combination with removing the VOLA from eligible own funds. In such scenario, the SCR would be EUR 775 million higher and eligible own funds would be EUR 981 million lower.

	Amount with Long Term Guarantee measures and transitionals	Impact of volatility adjustment set to zero and eliminating additional credit spread shock	Amount without Long Term Guarantee measures and transitionals
	(A)	(B)	(C) =(A)-(B)
Eligible own funds to meet Solvency Capital Requirement	7,644,679	-981,010	6,663,669
Solvency Capital Requirement	3,771,000	774,670	4,545,670

D.3 Other liabilities

Subordinated debt and Other borrowed funds

In the IFRS balance sheet, subordinated debt, debt securities issued and other borrowed funds are reported at amortised cost. In the Solvency II balance sheet, these borrowings are reported at market value, excluding an adjustment for NN Leven's own credit risk. In Solvency II market value, (a change in) the own credit risk is not taken into account. The Solvency II market value of subordinated debt is estimated using discounted cash flows based on actual interest rates and the original credit spreads. The Solvency II market value of other borrowed funds, is generally based on quoted market prices or, if not available, on prices estimated by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Valuation differences between IFRS and Solvency II for Subordinated debt of EUR 73 million and other borrowed funds of EUR 0.1 million represent the difference between amortised cost and market value, excluding an own credit element.

Other presentation differences include the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing liabilities ('dirty market value') and not separately as other liabilities as in the 2016 Consolidated annual accounts of NN Leven ('clean market value'). In addition to this presentation difference, subordinated debt presented as equity under IFRS is presented as liability under Solvency II. Total presentation differences for subordinated debt amounted to EUR 482 million as at 31 December 2016.

Debt securities issued in IFRS is presented as other borrowed funds in Solvency II, causing a presentation difference of EUR -2 million.

Differences due to a different scope of consolidation amounted to EUR 7 million for the other borrowed funds as at 31 December 2016.

Other liabilities

Part of the other liabilities are the deferred tax liabilities. In the Solvency II balance sheet, deferred tax assets and liabilities are recognised and valued in conformity with IFRS (reference is made to section D.1 'Assets'- Other assets). However, the differences in valuation of assets and liabilities as set out in sections D.1 'Assets', D.2 'Technical provisions' and D.3 'Other liabilities' are reflected in EUR -2,237 million less deferred tax liabilities recognised in the Solvency II balance sheet as at 31 December 2016.

In the IFRS balance sheet, other liabilities are reported at the notional amount. In the Solvency II balance sheet, other liabilities (with the exclusion of deferred taxes) are reported at market value. There are no significant valuation differences between IFRS and Solvency II for other liabilities as the market value is not significantly different from the notional value.

Presentation differences include the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing liability ('dirty market value') and not separately as other liabilities as in the 2016 Consolidated annual accounts of NN Leven ('clean market value'). Presentation differences amounted to EUR -67 million as at 31 December 2016.

Differences due to a different scope of consolidation amounted to EUR -336 million as at 31 December 2016.

Contingent liabilities and provisions

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

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

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

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

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

- A recognition difference: contingent liabilities are not recognised in the IFRS balance sheet, but are recognised in the Solvency II balance sheet if the exposure can be reliably estimated
- A measurement difference: provisions are measured in the IFRS balance sheet using the best estimate outcome (i.e. the full amount that may be incurred), while Solvency II requires a provision for the probability weighted outcome (i.e. the probability multiplied by the impact of the differences as at 31 December 2016)

For more details on other provisions and contingent liabilities, reference is made to Note 36 'Contingent liabilities and commitments' and Note 37 'Legal proceedings' in the 2016 Consolidated annual accounts of NN Leven.

Leasing

Information on operating lease arrangements are recognised in Note 25 'Other operating expenses' and Note 36 'Contingent liabilities and commitments' in the 2016 Consolidated annual accounts of NN Leven. There are no financial lease arrangements within NN Group.

Expected profits in future premiums
For existing business, expected profits included in future premiums are reflected in the technical provisions and therefore contribute to the Own Funds. For more information on the expected profits in future premiums, reference is made to QRT S.23.01.21 'Own funds' as included in the Appendix.

Outflow of economic benefits
For the expected timing of the outflows of economic benefits reference is made to Note 43 'Risk management', section 'Liabilities' annual undiscounted cash flows' in the 2016 Consolidated annual accounts of NN Leven. Uncertainties surrounding the amount or timing of the outflows of economic benefits is described in the Liquidity Risk paragraph in Note 43 'Risk management' in the 2016 Consolidated annual accounts of NN Leven. The uncertainties in amount or timing of other liability cash flows are low. Deviation risk was not taken into account in the valuation of the other liabilities.

Changes during 2016
No significant changes were made to the recognition and valuation bases nor on estimations of the other liabilities during the reporting period.

D.4 Alternative methods for valuation
Alternative valuation methods used
Alternative valuation methods are used by NN Leven to determine the fair value of assets and liabilities if quoted market prices in active markets are unavailable. Reference is made to Note 28 'Fair value of financial assets and liabilities' and Note 29 'Fair value of non-financial assets' in the 2016 Consolidated annual accounts of NN Leven for more information on the valuation approaches used.

D.5 Any other information
Active markets
Information on the criteria used to assess whether markets are active is included in Note 1 'Accounting policies' in the 2016 Consolidated annual accounts of NN Leven The valuation methods used if the markets are inactive are described in Note 28 'Fair value of financial assets and liabilities'.

Estimation uncertainties
For the major sources of estimation uncertainty, reference is made to the Own funds at risk in Note 43 'Risk Management' in the 2016 Consolidated annual accounts of NN Leven.

Other information
No other material information regarding the valuation of assets and liabilities for Solvency II purposes is relevant.

Capital management

E. Capital Management

Introduction

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

E.1 Own funds

Reference is made to Note 44 'Capital and liquidity management' in the 2016 Consolidated annual accounts of NN Leven for:

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

NN Leven did not have ancillary own funds during 2016 or as at 31 December 2016.

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

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

Impact of long term guarantees and transitional measures

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

Items deducted from own funds

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

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

1) Dividends

No foreseeable dividends are subtracted from the 31 December 2016 available equity. From the reported solvency II balance sheet as per 31 December 2015 a dividend from March 2016 was subtracted from equity.

2) Coupons on undated subordinated liability

From the equity per 31 December 2016 an amount of EUR 20 million is subtracted as foreseeable dividend in relation to the EUR 450 undated subordinated liability.

Additional ratios

No additional ratios are disclosed in the Solvency and Financial Condition Report other than the ratios included in QRT S.23.01.01 'Own funds' as included in the Appendix.

Analysis of significant changes in own funds

Reference is made to Note 44 'Capital and liquidity management' in the 2016 Consolidated annual accounts of NN Leven for an analysis of significant changes in own funds.

The principal loss-absorbency mechanism

During 2016, NN Leven had no principal loss-absorbency mechanism in place.

Capital management
Continued

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

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

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

Reconciliation IFRS equity to Own Funds

Reconciliation IFRS equity to Solvency II Basic Own Funds

As at 31 December 2016.	**2016**
IFRS Shareholders' Equity	15,894,518
Elimination of deferred acquisition costs and other intangible assets	-252,559
Valuation differences on assets	1,555,362
Valuation differences on liabilities, including insurance and investment contracts	-13,490,334
Deferred tax effects on valuation differences	3,030,386
Excess assets/ liabilities	**6,737,373**
Qualifying subordinated debt	1,154,807
Foreseeable dividends and distributions	-20,228
Basic Own Funds	**7,871,952**

The differences between IFRS Shareholders' Equity in the 2016 Consolidated annual accounts of NN Leven and Solvency II Basic Own Funds of NN Leven as at 31 December 2016 are mainly caused by:

- Valuation differences:
  - Deferred acquisition costs are not recognised under Solvency II as separate balance sheet item
  - Intangible assets are not recognised under Solvency II
  - Loans and advances are measured differently on the IFRS and Solvency II balance sheets
  - Reinsurance contracts are measured market consistently according to Solvency II rather than on tariff rate
  - Subordinated loans are measured differently
  - Insurance and investment contract liabilities are measured market consistently according to Solvency II rather than on tariff rate The other adjustments mainly consist of the change in net Deferred Tax Assets or Deferred Tax Liabilities caused by using different valuations for some Solvency II balance sheet items whilst the tax base of these items remained the same
- Other differences:
  - Foreseeable dividends and distributions are recognised for Solvency II purposes when determining the basic own funds

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

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

Eligibility of Own Funds
Reference is made to Note 44 'Capital and liquidity management' in the 2016 Consolidated annual accounts of NN Leven for the eligibility of Own Funds of NN Leven.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR

Reference is made to QRT S.25.02.21 in the Appendix and Note 43 'Risk management' of the 2016 Consolidated annual accounts of NN Leven for the amount of the SCR split by risk categories.

NN Leven determined the SCR including:

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

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

Deferred tax under Solvency II

The total deferred tax amount in Solvency II arises from:

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

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

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

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

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

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

Deferred tax assets are recoverable when:

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

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

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

Capital management
Continued

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

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

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

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

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

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

- Reversal of the amount of the risk margin in the technical provision
- Reversal of other valuation differences
- Taxable return on capital directly after the shock for one year
- Taxable return on capital after recovery to 100% SCR within one year for a certain period
- Investment return on assets backing insurance liabilities in excess of interest on technical provisions
- Investment return on assets backing interest bearing liabilities in excess of funding cost

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

The net deferred tax asset is classified as Tier 3 capital. Tier 3 capital cannot exceed 15% of the SCR. Further information on Tiering is included in Note 43 'Capital and liquidity management' in the 2016 Consolidated annual accounts of NN Leven.

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

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

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

- An Internal Model approach better reflects the specific assets and therefore the market risk in the portfolio of NN Leven e.g. property risk, sovereign and other credit spread risks. In addition, the approach to the most significant non-market risks within NN Leven such as longevity (trend uncertainty) and expense risk (closed block treatment) is better tailored to the specific portfolio characteristics and statutory reserves set up according to local company law
- In the case of Disability/Morbidity Risks, the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands
- The Standard Formula diversification assumptions do not recognise all the diversification of risks that exists in the NN Leven portfolios

In the Internal Model a further consideration is given to the reduction of the pro-cyclicality of the spread risk when calculating the SCR in a similar manner as the VOLA. Reference is made to section D.2 for further information on NN Leven's 'Dynamic VOLA'.

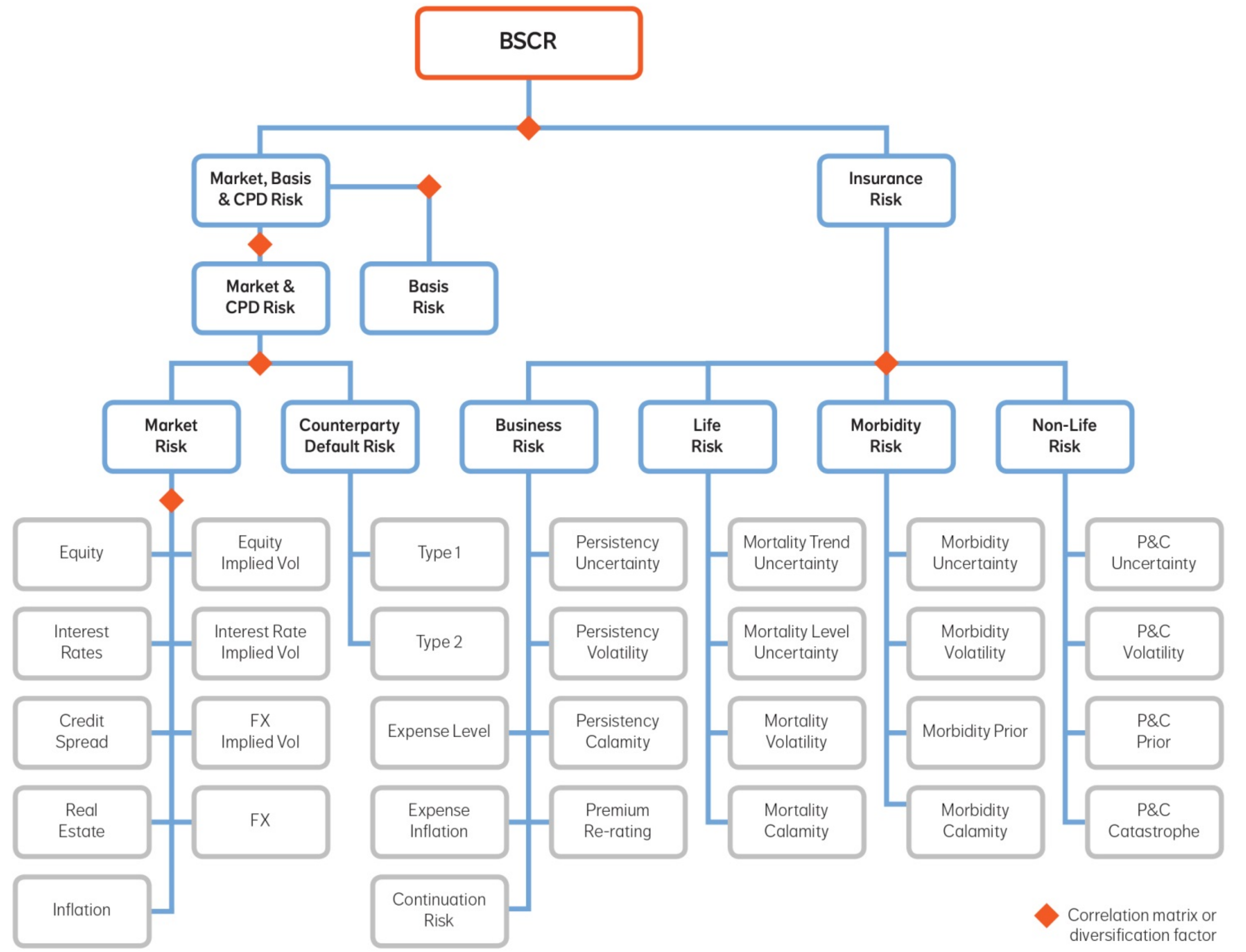
Capital management
Continued

There are no differences between the internal models used at NN Leven and the internal model used to calculate the Group SCR.

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

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

Risk factors as part of the Internal Model



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

In addition to the risks covered in the Standard Formula, the Internal Model includes the following risks:

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

Capital management
Continued

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

- Interest Rate Risk:
  - The Internal Model incorporates several shocks, including non-parallel ones, to the curve instead of only two parallel shocks used in the Standard Formula
  - When interest rates are at low levels, the Internal Model uses absolute shocks, while the Standard Formula uses relative shocks
  - In the Internal Model, first, the shock is applied to the interest rates and then the resulting rates are extrapolated to the Ultimate Forward rate. In the Standard Model the interest rates are first extrapolated to the Ultimate Forward rate and afterwards the shock is applied.
- Equity Risk:
  - Level of shocks differs mainly because it is calibrated to the equity portfolio of NN Leven
- Credit Spread:
  - Shocks in the Internal Model apply to all fixed income assets, whereas the Standard Formula does not apply shocks to the bonds issued by countries which are EU members
- Real Estate Risk:
  - Shock applied in the Standard Formula is calibrated to historical prices observed in the UK property market, while the shock in the Internal Model is calibrated to actual exposures of NN Leven
- Counterparty Default Risk:
  - Counterparty Default Risk module in the Standard Formula includes shocks applied to mortgage exposure, which are included under the Credit Spread module in the Internal Model
- Diversification within the Market Risk module:
  - The Internal Model assumes significant diversification between interest rate risk, on the one hand, and Credit Spread and Equity risks, on the other. Under the Standard Formula, diversification between these risks is different.
- Life Risk:
  - Under the Internal Model, longevity risk (i.e. future longevity trend) is based on a multiyear model, whereas under the Standard Formula the longevity risk is estimated by permanently decreasing all mortality rates by the same fixed percentage.

Capital requirements for operational risk are calculated in NN Leven based on the Standard Formula, and added to the combined BSCR.

Next, loss absorption effects from technical provisions and taxes are included.

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

The nature and appropriateness of the data used in the internal model
Market data is collected from pre-defined external data sources. The market data methodologies are based on the following key principles:

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

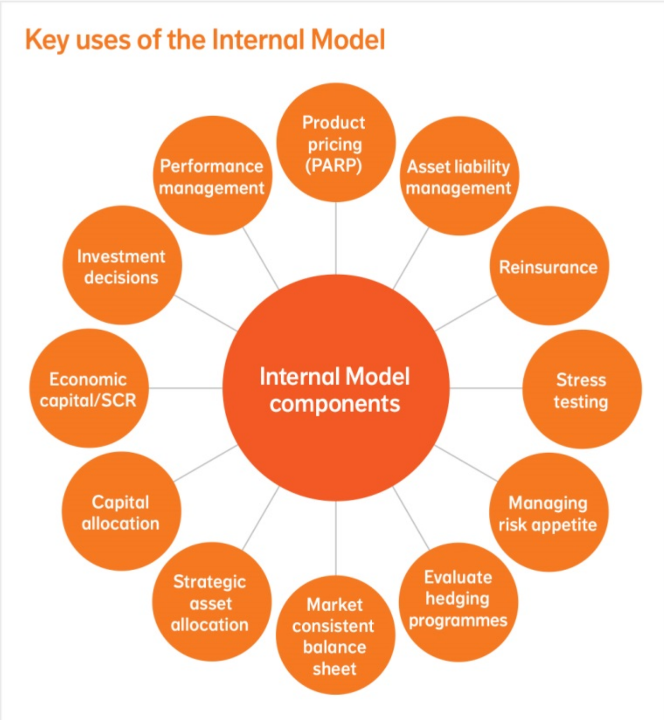
The uses of the Internal model
The Internal Model allows NN Leven to treat different risk management activities in a consistent way:

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

Capital management
Continued

- The model allows NN Leven to proactively define its risk measurement and management approach rather than awaiting (generic) industry changes to the Standard Formula

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



The methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement

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

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

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

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

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

E.6 Any other information

Reference is made to Note 44 'Capital and liquidity management' in the 2016 Consolidated annual accounts of NN Leven for any other material information regarding the capital management of NN Leven and financial leverage of NN Leven.

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Amounts in thousands of euros

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

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

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

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

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

S.02.01.02 Balance sheet

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	792,922
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	13
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	62,422,132
Property (other than for own use)	R0080	1,313
Holdings in related undertakings, including participations	R0090	4,993,458
Equities	R0100	2,855,758
Equities - listed	R0110	2,653,522
Equities - unlisted	R0120	202,236
Bonds	R0130	49,420,300
Government Bonds	R0140	37,519,525
Corporate Bonds	R0150	9,203,651
Structured notes	R0160	450,433
Collateralised securities	R0170	2,246,690
Collective Investments Undertakings	R0180	1,775,996
Derivatives	R0190	3,106,409
Deposits other than cash equivalents	R0200	268,897
Other investments	R0210	-0
Assets held for index-linked and unit-linked contracts	R0220	15,006,345
Loans and mortgages	R0230	18,879,253
Loans on policies	R0240	18,915
Loans and mortgages to individuals	R0250	13,686,620
Other loans and mortgages	R0260	5,173,717
Reinsurance recoverables from:	R0270	1,140,150
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	591,536
Health similar to life	R0320	11,275
Life excluding health and index-linked and unit-linked	R0330	580,261
Life index-linked and unit-linked	R0340	548,614
Deposits to cedants	R0350	143
Insurance and intermediaries receivables	R0360	173,009
Reinsurance receivables	R0370	7,424
Receivables (trade, not insurance)	R0380	954,631
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	59,743
Any other assets, not elsewhere shown	R0420	1,533
Total assets	**R0500**	**99,437,297**

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	69,709,624
Technical provisions - health (similar to life)	R0610	11,278
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	11,102
Risk margin	R0640	177
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	69,698,346
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	66,688,748
Risk margin	R0680	3,009,598
Technical provisions – index-linked and unit-linked	R0690	17,162,030
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	16,518,486
Risk margin	R0720	643,544
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	22,595
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	1,079,824
Deferred tax liabilities	R0780	-0
Derivatives	R0790	757,653
Debts owed to credit institutions	R0800	484,745
Financial liabilities other than debts owed to credit institutions	R0810	1,499,367
Insurance & intermediaries payables	R0820	696,193
Reinsurance payables	R0830	6,318
Payables (trade, not insurance)	R0840	30,332
Subordinated liabilities	R0850	1,154,807
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	1,154,807
Any other liabilities, not elsewhere shown	R0880	96,436
Total liabilities	**R0900**	**92,699,924**
Excess of assets over liabilities	**R1000**	**6,737,372**

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

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

		Line of Business for: life insurance obligations				Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	
		C0210	C0220	C0230	C0240	C0300
Premiums written						
Gross	R1410	31,504	510,478	649,583	1,195,114	2,386,680
Reinsurers' share	R1420	31,504	47,643	72,658	13,771	165,576
Net	R1500	0	462,835	576,926	1,181,343	2,221,104
Premiums earned						
Gross	R1510	31,503	511,172	649,583	1,195,123	2,387,381
Reinsurers' share	R1520	31,503	48,337	72,658	13,780	166,277
Net	R1600	0	462,835	576,926	1,181,343	2,221,104
Claims incurred						
Gross	R1610	-8,381	1,289,085	792,267	2,343,200	4,416,172
Reinsurers' share	R1620	-8,381	79,783	67,396	208	139,006
Net	R1700	0	1,209,302	724,871	2,342,992	4,277,165
Changes in other technical provisions						
Gross	R1710	17,992	-506,914	-296,729	907,784	122,132
Reinsurers' share	R1720	17,992	-25,691	184	271	-7,243
Net	R1800	-1	-481,224	-296,913	907,513	129,375
Expenses incurred	**R1900**	**11,272**	**122,203**	**122,999**	**285,779**	**542,253**
Other expenses	**R2500**					
Total expenses	**R2600**					**542,253**

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations	Total Top 5 and home country
		C0150	C0160	C0210
	R1400		CZ	
		C0220	C0230	C0280
Premiums written				
Gross	R1410	2,231,070	155,610	2,386,680
Reinsurers' share	R1420	165,113	463	165,576
Net	R1500	2,065,957	155,147	2,221,104
Premiums earned				
Gross	R1510	2,231,070	156,311	2,387,381
Reinsurers' share	R1520	165,814	463	166,277
Net	R1600	2,065,256	155,848	2,221,104
Claims incurred				
Gross	R1610	4,277,165	139,006	4,416,172
Reinsurers' share	R1620	138,581	425	139,006
Net	R1700	4,138,584	138,581	4,277,165
Changes in other technical provisions				
Gross	R1710	129,373	-7,241	122,132
Reinsurers' share	R1720	-7,243		-7,243
Net	R1800	136,616	-7,241	129,375
Expenses incurred	**R1900**	**520,495**	**21,758**	**542,253**
Other expenses	**R2500**			
Total expenses	**R2600**			**542,253**

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

S.12.01.02 Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance				Health insurance (direct business)		
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Total (Life other than health insurance, incl. Unit-Linked)		Contracts without options and guarantees	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0150	C0160	C0170	C0210
Technical provisions calculated as a whole	R0010											
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020											
Technical provisions calculated as a sum of BE and RM												
Best Estimate												
Gross Best Estimate	R0030	15,725,317		8,851,726	7,666,760		23,227,124	27,736,307	83,207,233		11,102	11,102
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	586,560		460,029	88,585		-12,063	5,765	1,128,875		11,275	11,275
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	15,138,757		8,391,696	7,578,175		23,239,187	27,730,542	82,078,358		-174	-174
Risk Margin	R0100	288,544	643,544			2,721,066			3,653,155	177		177
Amount of the transitional on Technical Provisions												
Technical Provisions calculated as a whole	R0110											
Best estimate	R0120											
Risk margin	R0130											
Technical provisions - total	R0200	16,013,861	17,162,030			53,684,497			86,860,388	11,278		11,278

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

S.22.01.21 Impact of long term guarantees and transitional measures

		Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero 1)	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	86,871,655			1,097,581	
Basic own funds	R0020	7,871,952			-823,209	
Eligible own funds to meet SCR	R0050	7,644,679			-595,937	
SCR	R0090	3,771,000			4,552,111	
Eligible own funds to meet MCR	R0100	6,732,587			-1,020,816	
Minimum Capital Requirement	R0110	1,696,950			383,828	

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

Reference is made to Section D.2. for more information on the impact of long term guarantees and transitional measures.

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

S.23.01.01 Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	22,689	22,689			
Share premium account related to ordinary share capital	R0030	3,228,029	3,228,029			
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	2,673,504	2,673,504			
Subordinated liabilities	R0140	1,154,807		468,974	685,832	
An amount equal to the value of net deferred tax assets	R0160	792,922				792,922
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	7,871,952	5,924,223	468,974	685,832	792,922
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	7,871,952	5,924,223	468,974	685,832	792,922
Total available own funds to meet the MCR	R0510	7,079,029	5,924,223	468,974	685,832	
Total eligible own funds to meet the SCR	R0540	7,644,679	5,924,223	468,974	685,832	565,650
Total eligible own funds to meet the MCR	R0550	6,732,587	5,924,223	468,974	339,390	
SCR	R0580	3,771,000				
MCR	R0600	1,696,950				
Ratio of Eligible own funds to SCR	R0620	2.03				
Ratio of Eligible own funds to MCR	R0640	3.97				

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	6,737,372
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	20,228
Other basic own fund items	R0730	4,043,641
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	2,673,504
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	254,681
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**254,681**

S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	**C0020**	**C0030**	**C0070**	**C0080**	**C0090**
1001	Total capital requirement for market risk	3,053,775	3,053,775		
1002	Total capital requirement for market risk Seperate account business	375,707	375,707		
1003	Total capital requirement for counterparty default risk	217,009	217,009		
1004	Overall Insurance Risk	2,824,533	2,824,533		
1005	Overall Business Risk	1,200,065	1,200,065		
1006	Operational risk	328,601	328,601		
8	Loss-absorbing capacity of tech. provisions if not modelled within components	-50,219	-50,219		
9	Loss absorbing capacity for deferred taxes if not modelled within components	-1,128,718	-1,128,718		

Calculation of Solvency Capital Requirement		**C0100**
Total undiversified components	R0110	6,820,752
Diversification	R0060	-3,049,753
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	3,771,000
Solvency capital requirement excluding capital add-on	R0200	3,771,000
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	3,771,000
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	-50,219
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	-1,128,718
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix 1: Quantitative Reporting Templates of the Solvency and Financial Condition Report Continued

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

		C0040
MCRL Result	R0200	1,797,363

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	15,088,538	
Obligations with profit participation - future discretionary benefits	R0220	50,219	
Index-linked and unit-linked insurance obligations	R0230	15,969,872	
Other life (re)insurance and health (re)insurance obligations	R0240	50,969,556	
Total capital at risk for all life (re)insurance obligations	R0250		85,069,272

		C0070
Linear MCR	R0300	1,797,363
SCR	R0310	3,771,000
MCR cap	R0320	1,696,950
MCR floor	R0330	942,750
Combined MCR	R0340	1,696,950
Absolute floor of the MCR	R0350	3,700
		C0070
Minimum Capital Requirement	R0400	1,696,950

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