Prospectus dated 4 April 2014

NN Group N.V.

(a public limited liability company (*naamloze vennootschap*) incorporated under the laws of the Netherlands)

€1,000,000,000 Fixed to Floating Rate Subordinated Notes due 2044

The €1,000,000,000 Fixed to Floating Rate Subordinated Notes due 2044 (the **Notes**) are issued by NN Group N.V. (the **Issuer**).

The Notes rank *pari passu* without any preference among themselves and constitute direct, unsecured and subordinated obligations of the Issuer, as further described in Condition 2.

From 8 April 2014 up to 8 April 2024 (the **First Call Date**), the Notes bear a fixed rate of interest of 4.625% per annum, payable annually in arrear on 8 April in each year (each a **Fixed Interest Payment Date**). If on the First Call Date the Notes have not been redeemed in full in accordance with the terms and conditions of the Notes (the **Terms and Conditions**), the Notes will bear a floating rate of interest of Euribor for three-month deposits in euro plus a margin of 3.95% per annum payable quarterly in arrear on 8 July, 8 October, 8 January and 8 April in each year, for the first time on 8 July 2024.

The Issuer may, in respect of any Optional Interest Payment Date, elect to defer payment of all (but not some only) of the interest accrued to that date and the Issuer shall not have any obligation to make such payment on that date. In addition, payments of interest on the Notes will be mandatorily deferred on each Mandatory Interest Deferral Date and the Issuer shall not have any obligation to make such payment on that date. Deferral of any payment of interest on an Optional Interest Payment Date or Mandatory Interest Deferral Date will not constitute a default by the Issuer and will not give the Noteholders any right to accelerate the Notes.

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of a deferral (whether optional or mandatory), together with any other interest in respect thereof not paid on any earlier Interest Payment Date, shall, so long as the same remains unpaid, constitute **Arrears of Interest**.

Arrears of Interest may be paid in whole or in part at any time, provided that no Mandatory Deferral Event has occurred and is continuing and any notifications to the Regulator have been made or consent from the Regulator has been obtained, as the case may be, in either case if required under the Capital Adequacy Regulations. Arrears of Interest will become immediately due and payable in whole (and not in part) upon the occurrence of certain events as described in Condition 4(b).

Unless the Notes are previously redeemed or purchased and cancelled in full, the Issuer will redeem the Notes at their principal amount, together with all Arrears of Interest and further interest accrued on 8 April 2044 (the **Maturity Date**). So long as the Issuer is subject to Capital Adequacy Regulations, any redemption pursuant to Condition 5 may only be made provided no Mandatory Deferral Event has occurred and is continuing at the time of such redemption, and principal, premium, interest or any other amount shall only be due and payable in respect of or arising from the Notes, provided no Mandatory Deferral Event has occurred and is continuing and the Issuer could make such payment without a Mandatory Deferral Event occurring, except where Condition 2(b) applies, in which case the Noteholder shall have a subordinated claim as set out therein.

The Issuer has the option to redeem all of the Notes in full on the First Call Date or on any Interest Payment Date thereafter (each an **Optional Redemption Date**) at their principal amount outstanding, together with any accrued and unpaid interest and any Arrears of Interest, subject to and in accordance with the Terms and Conditions. In addition, the Issuer may unless previously redeemed in full, redeem the Notes, in whole, but not in part, at their principal amount together with any Arrears of Interest and any further interest accrued to (but excluding) the date of redemption in accordance with the Terms and Conditions in the case of a Tax Event, a Capital Disqualification Event or a Rating Methodology Event, subject to and in accordance with the relevant Conditions. Furthermore, in case of a Tax Event, a Capital Disqualification Event or a Rating Methodology Event in accordance with Conditions 5(c), 5(d) and 5(e), respectively, the Issuer may, in its sole discretion, but subject to compliance with applicable Capital Adequacy Regulations, substitute the Notes in whole (but not in part) into or for another series of notes, or vary the terms of the Notes.

Any redemption, substitution, variation or purchase of the Notes is subject to (a) the prior consent of the Regulator if required under the Capital Adequacy Regulations and (b) compliance with the Capital Adequacy Regulations.

The denomination of the Notes will be EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000.

This prospectus (the **Prospectus**) has been approved by the Dutch Authority for the Financial Markets (the **AFM**) in its capacity as competent authority under the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) (the **Dutch Financial Supervision Act**) relating to prospectuses for securities and constitutes a prospectus for the purposes of Directive 2003/71/EC, as amended (the **Prospectus Directive**). Application has been made by the Issuer to Euronext Amsterdam N.V. (**Euronext**) for the Notes to be listed on NYSE Euronext in Amsterdam (**Euronext Amsterdam**). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been listed and admitted to trading on Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Notes are expected to be rated BBB- by Standard & Poor's Credit Market Services Europe Limited (**Standard & Poor's**) and Baa3 by Moody's Investors Service Ltd. (**Moody's**) (each a **Rating Agency**). Each of Standard & Poor's and Moody's is established in the European Union (the **EU**) and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 8 April 2014 (the **Closing Date**) with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking SA (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 18 May 2014 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances. See "*Summary of Provisions relating to the Notes while in Global Form*". The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the **Code**) and regulations thereunder.

Investing in the Notes involves risks. Prospective investors should have regard to the risk factors described under the section headed "*Risk Factors*" in this Prospectus, but should read the complete Prospectus, including the documents incorporated by reference, to get a full understanding of the risks and merits inherent in an investment in the Notes.

Capitalised terms used, but not defined, in this section can be found elsewhere in this Prospectus. Certain definitions of capitalised terms used herein are set out in "*Terms and Conditions of the Notes*" and "*Definitions*" and certain definitions used to describe the Issuer or the insurance industry are set out in "*Glossary of Insurance and Investment Management Terms*". The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Joint Lead Managers

DEUTSCHE BANK **ING** **J.P. MORGAN** **MORGAN STANLEY**

Co-Lead Managers

BNP PARIBAS **CITIGROUP** **RABOBANK INTERNATIONAL** **RBC CAPITAL MARKETS**

The date of this Prospectus is 4 April 2014.

This Prospectus comprises a prospectus for the purposes of Article 3 of the Prospectus Directive.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of the Prospectus.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the fullest extent permitted by law, none of Deutsche Bank AG, London Branch, ING Bank N.V., J.P. Morgan Securities plc and Morgan Stanley & Co. International plc (together, the **Joint Lead Managers**) and BNP Paribas, Citigroup Global Markets Limited, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International) and RBC Europe Limited (the **Co-Lead Managers**) and, together with the Joint Lead Managers, the **Managers**) accepts responsibility whatsoever for the contents of this Prospectus or for any statement, made or purported to be made by a Manager or on its behalf in relation to the Issuer or the issue and offering of the Notes. The Managers have not independently verified the information (included or incorporated by reference) in this Prospectus. Each of the Managers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances create any implication that (a) there has been no change in the affairs of the Issuer or its affiliates since the date hereof, (b) the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof, or (c) any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

THE SECURITIES REFERENCED IN THIS DOCUMENT MAY NOT BE DISTRIBUTED IN OR INTO THE UNITED STATES, AUSTRALIA, CANADA OR JAPAN. ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **U.S. SECURITIES ACT**) OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES, AUSTRALIA, CANADA OR JAPAN OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER

JURISDICTION OF THE UNITED STATES OR IN ANY OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN THE UNITED STATES IN ACCORDANCE WITH AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OR (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE NOTES ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR ITS POSSESSIONS OR TO A U.S. PERSON, EXCEPT IN CERTAIN TRANSACTIONS PERMITTED BY U.S. TAX REGULATIONS. TERMS USED IN THIS PARAGRAPH HAVE THE MEANINGS GIVEN TO THEM BY THE CODE AND REGULATIONS THEREUNDER.

The Notes may not be a suitable investment for all investors. The Notes are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential Investor's Currency (as defined below);

(d) understand thoroughly the Terms and Conditions and be familiar with the behaviour of the relevant financial markets and of any financial variable which might have an impact on the return on the Notes; and

(e) be able to evaluate (alone or with the help of a financial, legal and/or tax adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Prospective investors should also consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Notes.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Notes are legal investments for it, (b) the Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor the Managers represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which is intended to permit a public offering of the Notes or the possession or the distribution of this Prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (**EEA**) (including the Netherlands and the United Kingdom of Great Britain and Northern Ireland (**United Kingdom**)), Australia, Canada and Japan. See "*Selling and Transfer Restrictions*".

In connection with the issue of the Notes, ING Bank N.V. (the **Stabilising Manager**) (or any person acting on behalf of the Stabilising Manager) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be deposited with one of the ICSDs (International Central Securities Depositaries) as common safekeeper and does not mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

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1. RISK FACTORS

Prospective investors should carefully consider the risk factors set out below, together with the other information contained in this Prospectus (including but not limited to the audited consolidated financial statements with the related notes included herein, and the "Risk Management" and "Capital Management" sections in NN's audited consolidated financial statements for the financial year ended 31 December 2013, included herein (the ***2013 Annual Accounts****)), before making an investment decision with respect to the Notes. If any of the following risks should actually occur, NN's business, revenues, results of operations, financial condition and prospects could be materially adversely affected, which could result in an inability of the Issuer to pay interest and/or principal and could negatively affect the price of the Notes.*

Although the Issuer believes that the risks and uncertainties described below are the material risks and uncertainties, they are not the only ones faced by NN. All of these factors are contingencies which may or may not occur. Additional risks and uncertainties not presently known to the Issuer or that the Issuer currently deems immaterial may also have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects, which could result in an inability of the Issuer to pay interest and/or principal and could negatively affect the price of the Notes.

Prospective investors should carefully review the entire Prospectus, and should form their own views before making an investment decision with respect to the Notes. Before making an investment decision with respect to the Notes, prospective investors should also consult their own financial, legal and tax advisers to carefully review the risks associated with an investment in the Notes and consider such an investment decision in light of the prospective investor's personal circumstances. The sequence in which the risk factors are presented below, and any quantitative historical impacts and sensitivities included, are not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences in the future.

RISKS RELATED TO GENERAL ECONOMIC AND MARKET CONDITIONS

NN's business, revenues, results of operations, financial condition and prospects are materially affected by the condition of global financial markets and economic conditions generally.

Since the onset of the financial crisis in 2008, which in Europe was followed by the onset of the euro-crisis in 2010, weak macroeconomic conditions, including recessions, and the implementation of austerity measures in many economies, along with global financial market turmoil and volatility, have affected, and if these trends persist or return will continue to affect, the behaviour of NN's customers, and by extension, the demand for, and supply of, NN's products and services. High unemployment levels; reduced consumer and government spending levels; government monetary and fiscal policies; inflation rates; interest rates; credit spreads and credit default rates; currency exchange rates; market indices, equity and other securities prices; real estate prices and changes in customer behaviour have affected and will continue to affect NN. All of these factors are impacted by changes in financial markets and developments in the global and European economies.

Over the past several years, as the Dutch, European and global economies have taken steps to recover from the financial crisis, significant actions by governments, including bail-outs of financial institutions, as well as volatile markets, interest rates and credit spreads, significant changes in asset valuations (including material write-offs and write-downs of impaired assets), have all affected the business of financial institutions, including NN. Continuing weakness or significant deterioration in the Dutch, European and global economies, a failure to return to growth, and continuing volatility in financial markets may affect NN in one or more of the following ways which, should such events occur, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects:

- NN provides a number of life insurance, pension, income, investment and banking products that expose it to risks associated with fluctuations in interest rates, market indices, equity and other securities prices, credit default rates, the value of real estate assets, fluctuations in currency exchange rates and credit spreads. The profitability of many of these products depends in part on the value of the general account assets and separate account assets supporting them, which will fluctuate depending on the factors described in the previous sentence.

- Certain of NN's life insurance and pension products contain guaranteed minimum benefits. Financial market declines, decreases in prevailing interest rates, a prolonged period of low interest rates (such as that experienced over the past several years), and high market volatility have resulted, and may result, in the value of these guaranteed minimum benefits being higher than anticipated in the pricing, reserving and valuation assumptions made when the policies were issued, and have resulted, and may result, in a decrease in customer lapses. A decrease in customer lapses increases the costs to NN of these products because NN typically pays out the minimum guaranteed benefits on more policies when investment returns on the underlying assets are lower than the minimum guaranteed benefits, negatively impacting the profitability of those products. Such an impact on profitability would generally be reflected over time through IFRS earnings reflected in NN's consolidated financial statements, and could also result in an immediate decrease in available regulatory capital. Conversely, in periods of rapidly increasing interest rates, policy lapses and withdrawals may increase. This could force NN to sell investment assets at reduced prices and realise investment losses to make the cash payments due to its policyholders, having an immediate effect on IFRS earnings and available regulatory capital.

- Financial market conditions may adversely affect the effectiveness of the hedge instruments used by NN to manage certain risks to which it is exposed. This has resulted, and may result, in the hedge instruments not performing as intended or expected, in turn resulting in higher realised losses and increased cash needs to collateralise or settle these hedge transactions. Such financial market conditions have limited, and may limit, the availability, and increase the costs, of hedging instruments. In certain cases these costs have not been, and may not be, fully recovered in the pricing of the products to which the hedges relate.

- In the ordinary course of its business, NN holds investment portfolios containing a variety of asset classes, including fixed income securities (amongst which, government bonds of the GIIPS countries (being Greece, Italy, Ireland, Portugal and Spain), corporate bonds, mortgages and asset-backed securities (**ABS**)), equities, real estate, and investments in private equity funds. The value of these investment portfolios has been, and may be, negatively impacted by adverse conditions in the financial markets and economies generally, interest rate changes, changes in mortgage prepayment behaviour or declines in the value of underlying collateral, potentially resulting in increased capital requirements and realised or unrealised losses on those portfolios and decreased investment income. The value of NN's investment portfolios has also been, and may be, adversely impacted by reductions in price transparency, changes in the assumptions or methodologies used to estimate fair value and changes in investor confidence or preferences, resulting in higher realised or unrealised losses. A decrease in the value of the investment portfolios has impacted, and could impact, the results of operations and financial condition of certain of the Issuer's subsidiaries, requiring capital injections and impacting the ability of certain of those subsidiaries to distribute dividends.

- Weak performance of financial markets or underperformance (compared to certain benchmarks or NN's competitors) by funds or accounts that NN manages, or investment products that NN sells, has impacted, and may impact, NN's ability to attract new customers, and has caused, and may cause, customer investments to be withdrawn or reduced, resulting in reduced fee and commission income earned by NN from the management of investment portfolios for third parties, and reduced fee income on certain annuity, pension and investment products. Furthermore, changes in financial market conditions have caused, and may cause, a shift in NN's assets under management (**AuM**) mix from equity towards fixed-income products, potentially contributing towards a decline in the revenues earned by NN from the management of investment portfolios for third parties.

- Adverse economic conditions generally (including high unemployment rates) may reduce the level of savings and investment in insurance, banking and investment products. Furthermore, financial market conditions characterised by decreasing or persistently low interest rates may cause a decline in the benefits NN is commercially able to offer under its insurance products. These effects have reduced, and may reduce, demand for NN's products and services. Adverse economic conditions generally have resulted, and may result, in reductions in numbers of employees of NN's existing corporate customers in its group life insurance business, in turn resulting in a reduction in underlying employee participation levels and thus in the contributions, deposits and premium income attributable to certain of NN's pension products.

- NN holds certain assets that have low liquidity, such as privately placed fixed income securities, commercial and residential mortgage loans, ABS, government bonds of certain countries, private equity investments and real estate. Since the onset of the financial crisis many of these assets have proven to be illiquid resulting in realised losses if such assets were sold and unrealised losses on such assets if they were marked-to-market. Although the liquidity for certain of these assets has improved, a further downturn in the financial markets may exacerbate the low liquidity of these assets and may also reduce the liquidity of assets that are typically liquid, as occurred during the financial crisis in the case of the markets for ABS relating to real estate assets and other collateralised debt and loan obligations. If NN requires significant amounts of cash on short notice in excess of normal cash requirements or is required to post or return collateral in connection with its investment portfolio, derivatives transactions or securities lending activities, NN may be forced to sell assets. If those assets are illiquid, NN may be forced to sell them for a lower price than it otherwise would have been able to realise, resulting in losses.
- Disruptions, uncertainty or volatility in financial markets may limit or otherwise adversely impact NN's ability to access the public markets for debt and equity capital. This may in turn force NN to (a) delay raising additional capital, (b) issue debt securities of different types or under less favourable terms to NN than it would otherwise do, or (c) incur a higher cost of capital than it would otherwise have incurred, each of which may have a material adverse effect on NN's capital and liquidity position. Insufficient liquidity in public markets may force NN to curtail certain operations and strategies, and may adversely impact NN's ability to meet regulatory and rating agency requirements.
- As at 31 December 2013, NN has recognised on its consolidated balance sheet EUR 51 million deferred tax assets (after netting with deferred tax liabilities that can be offset). Deferred tax assets represent the tax benefit of future deductible differences between the book and tax value of assets and liabilities, operating loss carry-forwards and tax credit carry-forwards. NN periodically evaluates and tests its ability to substantiate deferred tax assets. Deferred tax assets are reduced by a valuation allowance (write-down) if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realised. In assessing the "more likely than not" criteria, NN considers future taxable income as well as prudent tax planning strategies. Future taxable income and tax planning strategies depend on market conditions and as a consequence the amount of the deferred tax assets can be volatile. Market conditions may result in deferred tax assets that cannot be realised, requiring a write-down (of part) of the deferred tax assets, which may adversely impact NN's results of operations and equity.

The continuing risk that one or more European countries could exit the eurozone could have a material adverse effect on NN's business, results of operations, financial condition and prospects.

Despite recent improvements in the financial position of many European countries, there remains a risk that financial difficulties may result in certain European countries exiting the eurozone. The possible exit from the eurozone of one or more European countries and the replacement of the euro by one or more successor currencies could create significant uncertainties regarding the enforceability and valuation of euro denominated contracts to which NN (or its counterparties) are a party and thereby materially and adversely affect NN's (and/or its counterparties') liquidity, business and financial condition. Such uncertainties may include the risk that (a) a liability that was expected to be paid in euro is redenominated into a new currency (which may not be easily converted into other currencies without significant cost), (b) currencies in some European countries may devalue relative to others, (c) former eurozone member states may impose capital controls that would make it complicated, illegal or more costly to move capital out of such countries, and/or (d) some courts (in particular, courts in countries that have left the eurozone) may not recognise and/or enforce claims denominated in euro (and/or in any replacement currency). The possible exit from the eurozone of one or more European countries and/or the replacement of the euro by one or more successor currencies could also cause other significant market dislocations and lead to other adverse economic and operational impacts that are inherently difficult to predict or evaluate. As a result, the occurrence of one or more of these events could have a material adverse effect on the business, results of operations, financial condition and prospects of NN and its counterparties.

A downgrade or a potential downgrade in NN's credit or financial strength ratings could have a material adverse effect on NN's ability to raise additional capital, or increase the cost of additional capital, and could result in, amongst others, a loss of existing or potential business (including losses on customer withdrawals), lower AuM and fee income, and decreased liquidity, each of which could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

In general, credit and financial strength ratings are important factors affecting public confidence in insurers, and are as such important to NN's ability to sell its products and services to existing and potential customers. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. On an operating subsidiary level, financial strength ratings reflect the opinions of rating agencies on the financial ability of an insurance company to meet its obligations under an insurance policy, and are typically referred to "claims-paying ability" ratings.

The Issuer has the following credit ratings: Standard & Poor's: BBB+ (last updated 20 December 2013, when Standard & Poor's regarded the outlook as "stable"); Moody's: Baa2 (last updated 4 February 2014, when Moody's regarded the outlook as "negative"); Fitch Ratings Ltd. (**Fitch**): A- (last updated 4 February 2014, when Fitch regarded the outlook as "negative").

The following operating subsidiaries of the Issuer are the only operating subsidiaries with financial strength ratings.

- Nationale-Nederlanden Levensverzekering Maatschappij N.V (**NN Life**). has the following financial strength rating: Standard & Poor's: A (last updated 2 December 2013, when Standard & Poor's regarded the outlook as "stable").
- ING Re (Netherlands) N.V. has the following financial strength rating: Standard & Poor's: A (last updated 2 December 2013, when Standard & Poor's regarded the outlook as "stable").
- ING Life Insurance Company, Ltd. (**NN Japan**) has the following financial strength rating: Standard & Poor's: A- (last updated 13 November 2013, when Standard & Poor's regarded the outlook as "stable").

Rating agencies review insurers' ability to meet their obligations (including to policyholders and their creditworthiness generally) based on various factors, and assign ratings stating their current opinion in that regard. While most of the factors are specific to the rated company, some relate to general economic conditions, intercompany dependencies and other circumstances outside the rated company's control. Such factors might also include a downgrade of the sovereign credit rating of the Netherlands as rating agencies typically take into account the credit rating of the relevant sovereign in assessing the credit and financial strength ratings of a corporate issuer. Rating agencies have increased the level of scrutiny that they apply to financial institutions, have increased the frequency and scope of their reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. NN may need to take actions in response to changing standards or capital requirements set by any of the rating agencies, which may not otherwise be in the best interests of NN. NN cannot predict what additional actions rating agencies may take, or what actions NN may take in response to the actions of rating agencies. The outcome of such reviews may have adverse ratings consequences, which could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

A downgrade of NN's credit or financial strength ratings, and a deteriorating capital position, in each case relative to NN's competitors, could affect NN's competitive position as comparative ratings are one of the factors typically considered by potential customers and third party distributors, including intermediaries and bancassurance, in selecting an insurer. Tied agents make a similar choice when they agree to become tied to an insurer. A downgrade of an insurer's credit or financial strength ratings may also contribute to the decision of a tied agent to terminate its relationship with that insurer and move to another insurer. Such a downgrade may also lead to increased withdrawals, lapses or surrenders of life insurance policies by existing customers as they may elect to move their business to insurers with higher ratings. A downgrade in NN's credit ratings or in any of its operating subsidiaries' financial strength ratings could thus lead to a decrease in NN's AuM, lower fee income, and decreased liquidity. In addition, a downgrade could reduce public confidence in NN and its operating insurance company subsidiaries and thereby reduce demand for its products and increase the number or amount of policy withdrawals by policyholders. These withdrawals could require the sale of invested assets, including illiquid assets, at a price that may result in investment losses. Cash payments to policyholders could reduce the value of AuM and therefore result in lower fee income. A downgrade in NN's credit ratings could also (a) make it more difficult or more costly to access additional debt and equity capital, (b) increase collateral requirements, give rise to additional payments, or afford termination rights, to counterparties under derivative contracts or other agreements, and (c) impair, or cause the termination of, NN's relationships with creditors, distributors, reinsurers or trading counterparties, each of which may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

Certain of NN's life insurance products (including annuity and pension products) are subject to longevity risk, which is the risk that the insured lives longer than assumed, with the result that the insurer must continue paying out on the relevant policy for longer than was anticipated, which could have a material adverse effect on NN's business, results of operations, financial condition and prospects.

In valuing its insurance liabilities and in establishing its pricing and reserving standards, NN uses assumptions to model the future benefit payments, which may be different from the actual benefit payments that will become due in the future if the insured lives longer than was assumed. To establish these assumptions, NN makes extensive use of industry mortality tables, adjusted to take into account own experience, in the countries in which it sells products that are subject to longevity risk. In the Netherlands, for instance, NN currently uses the Statistics Netherlands (*Centraal Bureau voor de Statistiek*) (**CBS**) mortality tables. Mortality tables are updated periodically (in the case of the CBS mortality tables, every two years) and any such updates may require that NN update its assumptions accordingly. If an updated mortality table reflects lengthened life expectancies, such mortality improvements may increase the expected future benefit payments and thereby decrease the profitability of certain of NN's life insurance products, which could have a material adverse effect on NN's business, revenues, results of operations and prospects. Moreover, a change in assumptions, though it would be reflected over time through IFRS earnings, would result in an immediate change in the present value of the liabilities used to determine available regulatory capital in the Netherlands, the impact of which is larger when interest rates are low. A change in assumptions could result in a material decrease in available regulatory capital in the Netherlands, which could have a material adverse effect on NN's financial condition.

NN has long-term assets and liabilities and is exposed to the risk of a mismatch between the value of the assets and the liabilities resulting from changes in interest rates and credit spreads, which could have a material adverse effect on NN's results of operations and financial condition.

As a provider of life insurance and guaranteed pension products, NN requires a significant amount of long-term fixed income assets which are mostly matched against its long-term insurance liabilities. Fixed income assets are typically valued at fair market value in accordance with current accounting and solvency regulations and are therefore sensitive to interest rate and credit spread movements. However, corresponding liability valuations do not fluctuate with interest rate and credit spread movements when they are valued using a fixed accrual methodology, which may apply depending on applicable accounting, reporting and regulatory frameworks. Moreover, even if the corresponding liabilities are valued using a market consistent methodology, they may nevertheless have limited or different sensitivity to credit spread and interest rate movements because the discount rate applied in those market consistent valuations (in some cases, including the discount rate prescribed or determined by regulators) typically do not fully reflect sensitivities to credit spread and interest rate movements and therefore the value of the liabilities may not match that of the fixed income assets. For further information on sensitivities to credit spread movements, please see "*Risk Management—Market and Credit Spread Risk: General Account Business—Credit spread risk*" in the 2013 Annual Accounts. In addition, there may be a mismatch in interest rate sensitivities if the duration of the liabilities of a business unit differs from the fixed income assets.

In all of these cases, there is a mismatch between the valuations of the fixed income assets and liabilities that, depending on applicable accounting, reporting and regulatory frameworks, could have a material adverse effect on NN's available regulatory capital (including in the Netherlands and Japan), results of operations and financial condition.

Sustained low interest rate levels could have a material adverse effect on NN's revenues, results of operation, financial condition and prospects.

The sustained low interest rate environment in recent years, in particular in Europe and Japan, has impacted NN in various ways, including the following, and will continue to do so if it persists.

- In a period of sustained low interest rates, financial and insurance products with long-term options and guarantees (such as pension, whole-life and disability products) may be more costly to NN. NN may therefore incur higher costs to hedge the investment risk associated with such long-term options and guarantees of these products. Moreover, economic capital NN holds for long-term risks, such as longevity, expense and morbidity risks, is higher in a low interest rate environment. These effects limit the ability of NN to offer these products at affordable prices. Also, the present value impact of assumption changes affecting future benefits and expenses is larger, creating more volatility in NN's results of operations and available regulatory capital.
- NN holds long-term fixed income assets, which are matched against its long-term liabilities. Income under IFRS on these fixed income assets is recorded on an amortised cost basis, releasing the yield from the time the asset was acquired over the remaining lifetime of the asset. Over the next several years fixed income assets that were purchased prior to the onset of the financial crisis when interest rates were higher will run off. This will subject NN to an investment risk because, in a low interest rate environment, NN may not be able to reinvest the proceeds from maturing investments or to invest the premiums, which it will continue to receive on recurring premium products with interest rate guarantees, in assets with a comparable return profile.

Sustained low interest rate levels have had, and could continue to have, a material adverse effect on NN's revenues, results of operation, financial condition and prospects.

Rising interest rates could reduce the value of fixed-income investments held by NN, increase policy lapses and withdrawals, and increase collateral requirements under NN's hedging arrangements, which could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

If interest rates rise, the value of NN's fixed income portfolio may decrease. This may result in unrealised losses, which in certain regulatory environments, for instance in Japan, could lead to reductions in available regulatory capital. Furthermore, rising interest rates could require that NN post collateral in relation to its interest rate hedging arrangements. In periods of rising interest rates, policy lapses and withdrawals may increase as policyholders may believe they can obtain a higher rate of return in the market place. In order to satisfy the resulting obligations to make cash payments to policyholders, NN may be forced to sell assets at reduced prices and thus realise investment losses. Such a sale of investment assets may also result in a decrease in NN's AuM, which could result in reduced fee income as NN's fee income is typically linked to the value of the AuM.

The occurrence of any of the risks set out above could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is exposed to currency transaction risks and currency translation risks.

The Issuer's operating subsidiaries may enter into transactions in currencies other than their local currency. Movements in relevant currency exchange rates could adversely affect the revenues, results of operations and financial condition of those operating subsidiaries, and in turn that of the Issuer. The Issuer is also subject to currency translation risks as the financial statements of some of its subsidiaries are prepared in currencies other than the euro, the most important of which are the Japanese yen and the Polish zloty. The Issuer and its subsidiaries also receive dividends and other distributions from subsidiaries in currencies other than the euro. Changes in currency exchange rates between the euro and these currencies, particularly the Japanese yen and the Polish zloty, can cause changes in the value (in euro) of corresponding positions on the consolidated financial statements of NN, even where results as measured in the local currency have remained unchanged, or have even improved. As at 31 December 2013, the currency exchange rate sensitivities measured by the impact of a 10% downward movement of currencies compared to the euro was EUR 58 million for IFRS earnings.

Certain subsidiaries of the Issuer may be subject to liquidity risk, which may not be timely resolved by liquidity available elsewhere in the NN group.

Most of NN's operating insurance companies will have adequate liquid assets as they have significant holdings of government bonds. However, certain NN entities, such as the Issuer, NN Re, Nationale-Nederlanden Interfinance B.V., NN Japan and NN Bank could be faced with a lack of liquidity. In addition, the Issuer is dependent on dividend payments by its subsidiaries to service its debt and expenses. Payments of dividends to the Issuer by its subsidiaries may be restricted by applicable laws and regulations of their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. For instance, dividend distributions by the Issuer's Dutch insurance subsidiaries may not be permitted by DNB (including pursuant to a breach of the "Theoretical Solvency Criterion" (*Theoretisch Solvabiliteitscriterium*) (**TSC**). See "*—Regulatory and Litigation Risks—The impact on NN of recent and ongoing financial regulatory reform initiatives is uncertain—Theoretical Solvency Criterion regulation in the Netherlands (also known as 'Solvency 1.5')*"). NN Re has a large derivatives portfolio in respect of the variable annuity guarantees it reinsures for certain members of the NN group, which could require it to post (additional) collateral. Nationale-Nederlanden Interfinance B.V. is the legal entity that enters into most of the derivative contracts that NN uses to hedge its insurance portfolios, and could be required to post (additional) collateral if, for instance, equity markets fall and interest rates rise. NN Japan's portfolio of corporate-owned life insurance (**COLI**) could suffer significant surrenders if certain tax benefits on existing business become no longer available to NN's corporate customers following a change in Japanese tax regulations, which could result in liquidity issues if this is combined with a significant increase in Japanese interest rates reducing the value of assets which would need to be sold to satisfy its obligations to customers. NN Bank is exposed to the risk of customer deposit outflows and an inability to attract wholesale funding to fund its illiquid assets, in particular its mortgage portfolio. There can be no assurance that liquidity available elsewhere in the NN group can or may be made available to the Issuer or affected subsidiary or that any such entity will have access to external sources of liquidity.

RISKS RELATED TO THE BUSINESS AND STRATEGY

Sales of life insurance products in the Netherlands have been declining since 2008. NN can give no assurance that sales volumes of its life insurance products will increase to the levels experienced prior to the onset of the financial crisis, or that they will increase at all. Slow growth of, or further declines in, such sales volumes could, over time, have a material adverse effect on NN's revenues, results of operations and prospects.

Sales of life insurance products in the Netherlands have declined since 2008. GWP for life insurance products decreased from EUR 26 billion in 2008 to EUR 19 billion in 2012 (source: DNB), mainly due to the continued effects of the global economic crisis and the economic recession in the Netherlands during that period; a depressed Dutch mortgage market against which many life insurance products are linked; negative publicity relating to unit-linked products in the Netherlands; low interest rates; changes in tax laws that have made certain life insurance products less attractive to customers, and a shift in focus of insurance companies, pension funds and employers away from traditional defined benefit pension schemes as low interest rates, and the guarantees that form part of these products, have increased the cost and made these products less attractive for employers providing such benefits. NN can give no assurance that sales volumes of its life insurance products will increase to the levels experienced prior to 2008, or that they will increase at all (in particular in relation to NN's individual life insurance business, which is in run-off). Slow growth of, or further declines in, such sales volumes could have a material adverse effect on NN's revenues, results of operations and prospects.

If NN is unable to successfully implement its strategy, or if NN's strategy does not yield the anticipated benefits, this may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN's strategy aims to generate capital and improve earnings via transformation in the Netherlands, profitable growth and operating leverage in other segments, and diligent management of its Japan Closed Block VA. NN intends to operationally improve and selectively grow its insurance businesses in the Netherlands by (a) executing its multiyear programme to achieve expense reductions through process rationalisation and product redesign, (b) improving capital efficiency through the reduction of liability risks in pensions and releasing capital from its maturing policies in its closed block individual life business, (c) pursuing opportunities to gradually move to higher yielding assets, leading to an optimisation of the risk/ return profile in relation to NN's liabilities, consistent with its prudent risk management policies, (d) restoring underwriting profitability in the non-life insurance business through restructuring of certain product portfolios, and (e) leveraging its market position to selectively capture new business opportunities in the market, such as growth in defined contribution pensions. In other segments, NN is focused on utilising its well established platforms to capture profitable growth opportunities and benefit from operational leverage: (a) in Insurance Europe, NN aims to achieve profitable growth driven by market growth in markets where it operates, improvements in productivity of its distribution channels, and disciplined cost management to achieve operating leverage, (b) in Japan Life, NN will seek to benefit from operating leverage from growth fuelled by the recovery of the Japanese economy, by penetrating deeper its bancassurance network and further penetrating the SME customer segment, and (c) NN Investment Partners aims to grow its third party business using its existing scalable platform and broadening its distribution relationships while benefitting from operational leverage. NN's strategy for its Japan Closed Block VA is aimed at capital release over time following the run-off profile of the portfolio, while limiting the impacts from volatile markets through hedging.

See "*Business—Strategy*". If NN's strategy is not implemented successfully, or if NN's strategy does not yield the anticipated benefits, this could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects. The ability to successfully implement NN's strategy will also be impacted by factors such as general economic and business conditions, many of which are outside the control of NN.

Because NN operates in highly competitive markets, it may lose its competitive position and market share, which may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

In each of NN's business lines NN faces intense competition, including from domestic and foreign insurance companies, distributors, financial advisers, banks, asset managers and diversified financial institutions, both for the ultimate customers for NN's products and for distribution through third party distribution channels. NN competes based on a number of factors including brand recognition, reputation, perceived financial strength and credit ratings, scope of distribution, quality of investment advice, quality of service, product features, investment performance of its products and price. A decline in NN's competitive position could have a material adverse effect on its business, revenues, results of operations, financial condition and prospects.

Recent years have seen substantial consolidation among companies in the financial services industry through acquisitions, (forced) takeovers and the formation of new alliances. Increased levels of consolidation have enhanced the competitive position of some of NN's competitors by broadening their product and services ranges, increasing their distribution channels and increasing their access to capital. Consolidation has also created larger competitors with lower (relative) operating costs and an ability to absorb greater risk more competitively, which could adversely affect NN's ability to obtain new, or retain existing customers, or its ability to adjust prices. These competitive pressures could result in increased pressure on product pricing and commissions on a number of NN's products and services, which may adversely affect NN's operating margins, underwriting results and capital requirements, or reduce market share, any of which could have a material adverse effect on NN's business, revenues, results of operations and prospects.

Consumer demand, technological changes, regulatory changes and actions and other factors also affect competition. Generally, NN could lose market share, incur losses on some or all of its activities and experience lower growth, if it is unable to offer competitive, attractive and innovative products and services that are also profitable, does not choose the right product offering or distribution strategy, fails to implement such a strategy successfully or fails to adhere or successfully adapt to such demands and changes.

Developing technologies are accelerating the introduction and prevalence of alternative distribution channels, particularly the internet. Such alternative distribution channels may also increase the possibility that new competitors whose competencies include the development and use of these alternative distribution channels may enter the markets in which NN operates. Although NN has strategies in place to benefit from such alternative distribution channels, it cannot guarantee that it will be able to obtain (and maintain) a competitive share of these distributions channels such that its overall market share and competitive position is protected. Moreover, NN is not able to accurately predict the extent to which such alternative distribution channels will replace or otherwise impact traditional distribution channels (such as intermediaries), or what effect this may have on NN's business.

Regulatory changes and the accelerating introduction of alternative distribution channels, methods and platforms, among other factors, are also blurring the boundaries between several markets in which NN operates (including the insurance, investment management and banking markets). This has led, and may continue to lead, to increased competitive pressures within these markets. Although this may also present new opportunities for NN, those opportunities may require expertise and experience that NN may not have, or may not be able to timely develop or procure. As a result, NN may not succeed in defending its competitive position, or may not succeed in exploiting such new opportunities, each of which may have a material adverse effect on its business, revenues, results of operations, financial condition and prospects.

Catastrophes, including natural disasters, may result in substantial losses and could have a material adverse effect on NN's business, results of operations, financial condition and prospects.

NN is subject to losses from unpredictable events that may affect multiple insured risks. Such events include both natural and man-made events, such as, but not limited to, windstorms, coastal inundation, floods, severe winter weather, and other weather-related events, pandemics, large-scale fires, industrial explosions, earthquakes and other man-made disasters such as civil unrest and terrorist attacks.

The extent of the losses from such catastrophic events is a function of their frequency, the severity of each individual event and the reinsurance arrangements that NN has in place. A catastrophic event that is sufficiently severe could result in one or more reinsurers that have re-insured that event defaulting on their obligations to the relevant insurers, including NN. Some catastrophes, such as explosions, occur in small geographic areas, while others, including windstorms and floods, may produce significant damage to large, heavily populated and widespread areas. The frequency and severity of catastrophes in general are inherently unpredictable and subject to long-term external influences, such as climate change, and a single catastrophe or multiple catastrophes in any period, could have a material adverse effect on NN's business, results of operations, financial condition and prospects.

The non-life insurance business has historically been cyclical, characterised by periods of intense competition in relation to price and policy terms and conditions often due to excessive underwriting capacity, resulting in fewer policies written, lower premium rates, increased expenses for customer acquisition and retention, and less favourable policy terms and conditions for NN, and such cycles may occur again.

Insurers that offer non-life insurance products have historically experienced significant fluctuations in operating results due to competition, the levels of underwriting capacity, general social, legal or economic conditions and other factors. The supply of insurance capacity is related to, amongst other factors, prevailing prices, the level of insured losses and the level of industry profitability and capital surplus which, in turn, may fluctuate in response to changes in inflation rates, the rates of return on investments being earned by the insurance industry, as well as other social, economic, legal and political changes. As a result, the non-life insurance business has historically been cyclical, characterised by periods of intense competition in relation to price and policy terms and conditions often due to excessive underwriting capacity, as well as periods when shortages of capacity have seen increased premium rates and policy terms and conditions that are more advantageous to underwriters. Increases in the supply of insurance (whether through an increase in the number of competitors, an increase in the capitalisation available to insurers, or otherwise) and, similarly, reduction in consumer demand for insurance, could have adverse consequences for NN, including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention, and less favourable policy terms and conditions for NN, any of which could have a material adverse effect on NN's business, results of operations, financial condition and prospects. Although NN may be able to control certain of these factors, its non-life insurance business will tend to follow this cyclical pattern with profitability increasing during periods of lower underwriting capacity, increased premium rates and/or higher quality insured risk, and profitability declining in periods of higher underwriting capacity, increased premium rates and/or lower quality insured risk.

In the ordinary course of managing and reporting on its business, NN makes extensive use of assumptions and actuarial models to estimate future revenues and expenditures until the maturity of its insurance portfolios, and to assess the related risks. Differences in experience compared with assumptions, as well as updates of the assumptions and actuarial models, may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

In the ordinary course of managing and reporting on its business, NN makes extensive use of actuarial models to estimate future revenues (including premium income and investment returns) and expenditures (including claims payable, policyholder benefits payable, operating expenses, commissions payable and tax expenses) until the maturity of its insurance portfolios, which are used for various purposes, including pricing, reserving, reserve adequacy testing, solvency, economic capital, and hedging programmes, and uses risk models to assess the related risks.

These actuarial models use, among others, statistics, observed historical market data, insurance policy terms and conditions, and NN's own judgment, expertise and experience, and include assumptions as to, among others, the levels and timing of payment of premiums, benefits, claims, expenses, interest rates, credit spreads, investment portfolio performance (including equity market and debt market returns), longevity, mortality, morbidity and product persistency, and customer behaviour (including with respect to surrenders or extensions). NN's risk models also include assumptions as to regulatory capital and other requirements, which are particularly uncertain in the current regulatory environment, which is undergoing significant, and ongoing, changes. See "*—Regulatory and Litigation Risks—The impact on NN of recent and ongoing financial regulatory reform initiatives is uncertain*". Actuarial and risk models are complex and may not identify all relevant elements, or may not accurately estimate the magnitude of the impact of identified elements. The effectiveness of these models depends on the quality of information used, which may not always be accurate, complete, or up-to-date, or the significance of which may not always be properly evaluated. Actuarial and risk models are inherently uncertain and involve the exercise of significant judgment. NN therefore cannot determine with precision the amounts that it will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting NN's policy liabilities, together with future premiums, will be sufficient.

If actual experience differs from assumptions or estimates, the profitability of NN's products may be negatively impacted, NN may incur losses, and NN's capital and reserves may not be adequate, and the effectiveness of NN's hedging programmes may be adversely affected. See "*—Risks Related to the Business and Strategy—NN's hedging programmes may prove inadequate or ineffective for the risks they address, which could have a material adverse effect on NN's business, results of operations, financial condition and prospects*".

From time to time, NN may need to update its assumptions and actuarial and risk models to reflect actual experience and other new information. Changes to assumptions and these models could impact NN by, for instance, requiring that it update its hedge positions, in which case NN may incur losses, or result in a review of, and subsequent changes to, NN's product pricing, which could have a material adverse effect on NN's business, revenues, results of operations and prospects. In addition, the impact of changes to assumptions, actuarial and risk models on NN's financial reporting will differ depending on applicable accounting and regulatory frameworks.

The impact of changes in assumptions for most of NN's life insurance business would be reflected over the remaining life of the policies through IFRS earnings. However, for non-life insurance business and the variable annuity business regular updates are made to the assumptions, with an immediate change in the present value of reserves and therefore on IFRS earnings. Furthermore, updates in assumptions within the life insurance business in the Netherlands would result in an immediate change in the present value of the liabilities used to determine available regulatory capital in the Netherlands and would therefore have an immediate impact on available regulatory capital. Changes in assumptions could therefore have a material adverse effect on NN's results of operations and financial condition.

In valuing its insurance liabilities and in pricing its life insurance and pension products, NN uses assumptions to model the impact of future policyholders' behaviour, which may be different from the actual impact of future policyholders' behaviour. A discrepancy between assumed policyholder behaviour and actual experience, as well as changes to the assumptions used in the modelling, may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is exposed to risks associated with the future behaviour of policyholders which may have an impact on future claims payment patterns. Relevant policyholder behaviours include, among others, policy lapse, withdrawal and surrender decisions, decisions on whether or not to extend the term of a policy, premium payment decisions, discretionary policy top-ups, and choices regarding the underlying fund composition in relation to certain pension and investment products. Risks arise from the discretions afforded to policyholders under the policies, and decisions by customers on whether or not to perform under the policies.

Policyholder behaviours and patterns can be influenced by many factors, including financial market conditions and economic conditions generally. For instance, if an insurance product contains a guaranteed minimum benefit (as do the variable annuity insurance products in NN's Insurance Europe and Japan Closed Block VA books), financial market conditions will determine whether that guarantee is "in the money", "out of the money" or "at the money", depending on whether the guarantee amount is higher, lower or equal to the value of the underlying funds. This in turn may influence the policyholder's decision on whether or not to maintain the policy. By way of example: an equity market decline, decreases in prevailing interest rates, or a prolonged period of low interest rates, could result in the value of the guaranteed minimum benefits being "in the money", in which case the policyholder is less likely to surrender the policy (particularly when the timing of receiving the guaranteed minimum benefit amount is known and is not too far in the future). Factors such as customer perception of NN, awareness and appreciation by customers of potential benefits of early surrender, and changes in laws (including tax laws that make relevant products more or less beneficial to customers from a tax perspective) can also affect policyholder behaviour. Other factors, less directly related to the product, such as a change in state pensions, an increase or decrease in the preference of consumers for cash at hand, the existence and terms of competing products, and others, may also have an impact on policyholder behaviour.

In valuing its insurance liabilities and pricing its life insurance and pension products, NN uses assumptions to model the impact of future policyholder behaviour. Where meaningful these assumptions reflect a different behaviour under various economic scenarios. However, the impact of actual policyholder behaviour NN experiences may be different from the impact of assumed policyholder behaviour. This and other insights in the development of policyholder behaviour might result in a change of those assumptions.

Changes in assumptions can affect NN's business in a number of ways. For most of the life insurance business the impact would be reflected over the remaining life of the policies through IFRS earnings, except for the variable annuity business where regular updates are made for fair value calculations, with an immediate change in the present value of reserves, which is immediately reflected in IFRS earnings. Changes in assumptions within the life insurance business in the Netherlands also result in an immediate change in the present value of the liabilities used to determine available regulatory capital in the Netherlands and would therefore have an immediate impact on available regulatory capital in the Netherlands. Changes in assumptions could therefore have a material adverse effect on NN's results of operations and financial condition.

A discrepancy between assumed policyholder behaviour and actual experience, as well as changes to the assumptions used in the modelling, may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

Investment guarantees of NN's separate accounts pension business in the Netherlands and the variable annuity products sold in Japan have in the past had, and may in the future have, a material adverse effect on NN's business, results of operations, and financial condition.

NN's separate account business in the Netherlands consists of large pension contracts sold to employers under which a discretion to choose the funds in which premiums are invested is afforded, while NN offers a guaranteed return ranging from 3% to 4%. As derivative instruments to hedge exposure to the investment options fully reflecting these exposures are not available, NN's obligations under these policies cannot be fully hedged and as a result the capital required for this business, as well as results of operations attributable to this business, is volatile.

NN's Japan Closed Block VA segment consists of variable annuity individual life insurance policies sold primarily from 2001 to 2009, when the block entered into run-off. These products offered policyholders the opportunity, at their discretion but within certain parameters, to invest in a variety of Japanese and international equity, fixed income, and other investment funds. In addition, these products included guaranteed minimum death benefits and provided customers with the option to purchase guaranteed minimum survival benefit riders. In some cases, such products include ratchets, the effect of which is to reset the guaranteed benefit at a higher level in case of positive market performance.

Many of these products permit policyholders to make certain determinations at their discretion, including the discretion to surrender the contract, and in some cases to extend the contract. As a result, NN's liability under these contracts is subject to policyholder behaviour, which is difficult to predict. Moreover, these discretionary characteristics amplify the potential effects of many other factors and risks, including basis risk, market volatility risks, risks arising when policies are close to renewal date, financial market conditions, hedging programme ineffectiveness, differences between assumptions and actual experience, operational risks and regulatory risks, all of which may have significant negative impacts on earnings, require significant adjustments of NN's hedging position that might negatively impact liquidity, and require increases in regulatory reserves and capital requirements, each of which could have a material adverse effect on NN's results of operations and financial condition.

Discrepancies between assumed mortality and morbidity and actual mortality and morbidity experience may have a material adverse effect on NN's results of operations and financial condition.

NN's insurance business is exposed to mortality and morbidity risk. Mortality risk is the risk that a greater number of insured persons die than was assumed, resulting in higher claims. NN's most significant exposure to mortality risk is in its term life and endowment policies. Morbidity risk is the risk that a greater number of insured persons will suffer from insured illnesses and disabilities than was assumed, resulting in higher claims and benefit payments. NN's most significant exposure to morbidity risk is in its COLI business in Japan, healthcare insurance business in Greece and income protection and disability insurance business in the Netherlands sold within NN's non-life insurance business. In the case of the income protection and disability insurance business in the Netherlands, a weak economy and higher unemployment have increased the likelihood that those who are eligible to make a claim do so for longer than was assumed, which has resulted in much higher claims than was anticipated. Discrepancies between assumed mortality and morbidity and actual mortality and morbidity experience may have a material adverse effect on NN's results of operations and financial condition.

A failure to accurately estimate inflation and factor it into NN's product pricing, expenses and liability valuations could have a material adverse effect on NN's results of operations and financial condition.

A failure to accurately estimate inflation and factor it into NN's product pricing and liability valuations with regard to future claims and expenses could result in systemic mispricing of long-term life and non-life insurance products resulting in underwriting losses, and in restatements of insurance liabilities, which could have a material adverse effect on NN's results of operations and financial condition.

In the case of expenses, NN's most significant exposure to inflation risk is in its life insurance business in the Netherlands. With respect to claims, NN's most significant exposure to inflation risk is in its disability and accident insurance policies written by the non-life insurance business in the Netherlands, and health insurance policies written by the life insurance business in Greece.

A sustained increase in inflation may result in (a) claims inflation (which is an increase in the amount ultimately paid to settle claims several years after the policy coverage period or event giving rise to the claim) and expense inflation (which is an increase in the amount of expenses that are paid in the future), respectively, coupled with (b) an underestimation of corresponding reserves at the time of establishment due to a failure to fully anticipate increased inflation and its effect on the amounts ultimately payable, and, consequently, actual claims or expense payments that significantly exceed associated insurance reserves, which could have a material adverse effect on NN's results of operations and financial condition. An increase in inflation may also require NN to update its assumptions. Updates in assumptions within the life insurance business in the Netherlands would result in an immediate change in the present value of the claims or expenses, respectively, used to determine available regulatory capital in the Netherlands and would therefore have an immediate impact on available regulatory capital. Changes in assumptions could therefore have a material adverse effect on NN's results of operations and financial condition.

NN's primary distribution channel is its network of intermediaries, tied agents and bancassurance. A failure by NN to maintain a competitive distribution network, or to attain a market share of new sales and distribution channels that is comparative to its market share of traditional channels, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN's primary distribution channel is its network of intermediaries (which includes independent agents and mandated brokers), tied agents and bancassurance through which it sells and distributes its products. In the Netherlands, the principal distribution channels for NN's group life products are actuarial consulting firms that act as advisers to mid-sized and large-sized corporations (to which 43% of the Netherlands Life's group life annual premium equivalent (**APE**) was attributable in 2013), and independent agents and brokers that act as advisers to small and medium enterprises (**SMEs**) (to which, in aggregate, 57% of the Netherlands Life's group life APE was attributable in 2013). In the Netherlands, the principal distribution channels for NN's individual life products are primarily intermediaries, such as independent agents and brokers (to which, in aggregate, 84% of the Netherlands Life's individual life APE was attributable in 2013), and the bancassurance channel through NN's distribution arrangement with ING Bank in the Netherlands (to which 6% of APE was attributable in 2013). NN sells and distributes its non-life products in the Netherlands primarily through regular and mandated brokers (to which 84% of the Netherlands Non-Life's GWP was attributable in 2013). In Japan, the corporate owned life insurance business is sold through independent agents (including tax advisers and bank-affiliated corporate agencies) and through bancassurance (including large securities houses). In Central and Eastern Europe, NN's primary distribution channel is tied agents.

The intermediaries and bancassurance parties through whom NN sells and distributes its products are independent of NN, with the exception of NN Bank. Moreover, NN does not have exclusivity agreements with intermediaries or with some of its bancassurance parties, so they are free to offer products from other insurance companies and there is no obligation to favour NN products. The successful distribution of NN products therefore depends in part on the choices an intermediary or bancassurance party may make as regards its preferred insurance company or companies, and as regards its preferred products and services. An intermediary or bancassurance party may determine its preference as to insurer on the basis of suitability of that insurer for its customers and for itself by considering, among other things, the security of investment and prospects for future investment returns in the light of an insurer's product offering, past investment performance, perceived financial strength and stability, credit and other ratings (if applicable), the amount of initial and recurring sales commission and fees paid by the insurer, and the quality of the service provided by the insurer. An intermediary or bancassurance party then determines which products are most suitable for its customers and for itself by considering, among other things, product features and price. An unfavourable assessment of NN or its products based on any of these factors could result in NN generally, or certain of its products, not being actively marketed by intermediaries or bancassurance parties to their customers, with the consequence that NN's sales volumes may decrease, or policy lapses and withdrawals may increase, resulting in reduced fee and premium income. NN's sales volumes may also decrease if a distributor or distribution channel on which a particular NN business unit is dependent sells fewer NN products as a result, for instance, of reputational harm to that distributor or distribution channel.

NN competes with other insurers for the services of tied agents. The tied agents of NN work out of branch offices in units under branch office and unit managers. When a tied agent makes a choice as to insurer, this choice is also connected to the branch and unit managers the tied agent will work with. It is not uncommon for competitors to actively solicit tied agents to terminate their current agreements and enter into new exclusivity undertakings with those competitors, often done through the branch and unit managers resulting in entire sales teams leaving. This soliciting for (teams of) tied agents has been more successful during times of uncertainty about the direction of the Issuer. In the past, NN has experienced strikes by tied agents in certain countries, which has temporarily disrupted its sales and distribution activities, and thus negatively impacted NN's sales volumes, resulting in reduced fee and premium income in those countries.

NN is also exposed to the risk that distributors may change their business models in ways that affect how they sell NN's products, either in response to changing business priorities or as a result of shifts in regulatory supervision or potential changes in applicable laws and regulations. This may concern, for instance, requirements and standards applicable to the distribution of NN products, as well as changing laws regarding commissions payable. For instance, commissions on the sale of certain insurance, pension and investment services products have been banned in the Netherlands. Each of these factors may result in distributors ceasing to sell NN products, or selling less NN products, and a lowering of the persistency of NN products.

Internet-based sales and distribution platforms are becoming increasingly important distribution channels, negatively impacting NN's market share in relation to the products NN sells through its established sales and distribution channels. For instance, relative to more traditional distribution channels, the sale and distribution of non-life insurance products through comparative price websites has increased. It is possible that NN may experience a similar trend in relation to the sale and distribution of life insurance products.

A failure by NN to maintain a competitive distribution network, including participation in, or the development of, an internet-based platform to maintain its market share of new sales through this distribution channel compared to its market share of traditional channels, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN's hedging programmes may prove inadequate or ineffective for the risks they address, which could have a material adverse effect on NN's business, results of operations, financial condition and prospects.

NN employs hedging programmes with the objective of mitigating risks inherent in its business and operations. These risks include current or future changes in the fair value of NN's assets and liabilities, current or future changes in cash flows, the effect of interest rates, equity markets and credit spread changes, the occurrence of credit defaults, and currency exchange fluctuations. As part of its risk management strategy, NN employs hedging programmes to control these risks by entering into derivative financial instruments, such as swaps, options, futures and forward contracts.

Developing an effective strategy for dealing with the risks described above is complex, and no strategy can completely protect NN from such risks. Each of NN's hedging programmes is based on financial market and customer behaviour models using, amongst others, statistics, observed historical market and customer behaviour, underlying fund performance, insurance policy terms and conditions, and NN's own judgment, expertise and experience. These models are complex and may not identify all exposures, may not accurately estimate the magnitude of identified exposures, or may not accurately determine the effectiveness of the hedge instruments, or fail to update hedge positions quickly enough to effectively respond to market movements. Furthermore, the effectiveness of these models depends on information regarding markets, customers, fund values, NN's insurance portfolio and other matters, each of which may not always be accurate, complete, up-to-date or properly evaluated. Hedging programmes also involve transaction and other costs, and if NN terminates a hedging arrangement, it may be required to pay additional costs, such as transaction fees or breakage costs. NN may incur losses on transactions after taking into account hedging strategies. Although NN has developed policies and procedures to identify, monitor and manage risks associated with these hedging programmes, the hedging programmes may not be effective in mitigating the risk that they are intended to hedge, particularly during periods of financial market volatility.

Furthermore, the derivative counterparty in a hedging transaction may default on its obligations. Although it is NN's policy to fully collateralise derivative contracts, and differences in market value of the collateral are settled between the relevant parties on a daily basis, it is still exposed to counterparty risk. For instance, NN is dependent on third parties for the daily calculation of the market values of the derivative collateral. If these third parties (mostly large institutions) miscalculate the collateral required and the counterparty fails to fulfil its obligations under the derivative contract, it could result in unexpected losses, which could have a material adverse effect on the business, revenues, results of operations and financial condition of NN. NN's inability to manage risks successfully through derivatives (including a single counterparty's default and the systemic risk that a default is transmitted from counterparty to counterparty) could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is exposed to counterparty risk. Deteriorations in the financial soundness of other financial institutions, sovereigns or other contract counterparties may have a material adverse effect on NN's business, revenues, results of operations and financial condition.

Due to the nature of the global financial system, financial institutions, such as NN, are interdependent on other financial institutions as a result of trading, counterparty and other relationships. Other financial institutions with whom NN conducts business act as counterparties to NN in such capacities as issuers of securities, customers, banks, reinsurance companies, trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, intermediaries, commercial banks, investment banks, mutual and hedge funds and other financial intermediaries. In any of these capacities, a financial institution acting as counterparty may not perform their obligations due to, among other things, bankruptcy, lack of liquidity, market downturns or operational failures, and the collateral or security they provide may prove inadequate to cover their obligations at the time of the default.

A default by any financial institution, or by a sovereign, could lead to additional defaults by other market participants. The failure of a sufficiently large and influential financial institution or sovereign has in the past, and could in the future, disrupt securities markets or clearance and settlement systems, and could lead to a chain of defaults because the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of one or more counterparties may lead to market-wide liquidity problems and losses or defaults by NN or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NN interacts on a daily basis. Systemic risk could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

Reinsurance subjects NN to the credit risk of reinsurers, and reinsurance may not be available, affordable or adequate to meet NN's requirements, which may have a material adverse effect on NN's business, revenues, results of operations and financial condition.

NN purchases reinsurance under various agreements that cover defined blocks of business on a yearly renewable, per risk excess of loss or catastrophe excess of loss basis. These reinsurance agreements are designed to spread the risk and mitigate the effect of claims. The amount of the retained risk depends on an evaluation of the specific risk, which is subject, in certain circumstances, to maximum limits based on the characteristics of coverage. Under the terms of these reinsurance agreements, the reinsurer agrees to reimburse NN for the ceded amount in the event that NN has to pay out the ceded claim to a policyholder. A default by a reinsurer to which NN has material exposure could expose NN to significant (unexpected) losses and therefore have a material adverse effect on its business, revenue, results of operations and financial condition.

Market conditions beyond NN's control determine the availability and cost of reinsurance protection. Accordingly, NN may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the profitability of NN's business and the availability of capital to write future business. In addition, NN determines the appropriate level of primary insurance and reinsurance coverage based on a number of factors and from time to time decides to reduce, eliminate or decline coverage based on its assessment of the costs and benefits involved. Any decreases in the amount of reinsurance coverage may increase NN's risk of loss. Any of these risks, should they materialise, may have a material adverse effect on NN's business, revenues, results of operations and financial condition.

The determination of the amount of impairments taken on NN's investment and other financial assets is subjective and could have a material adverse effect on NN's results of operations and financial condition.

Impairment evaluation of NN's investment and other financial assets is a complex process that involves significant judgments and uncertainties that may have a significant impact on NN's results of operations and financial condition.

All debt and equity securities (other than those carried at fair value through profit and loss) held by NN are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the relevant issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on (the combination of) a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. Upon impairment, the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result.

The identification of impairment is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, and observable market prices. Estimates and assumptions are based on management's judgment and other available information. Significantly different results can occur as circumstances change and additional information becomes known. By way of example, in the financial year ended 2011, an impairment on Greek government bonds in an aggregate amount of EUR 390 million was charged to NN's consolidated statement of income. Any further impairments could have a material adverse effect on NN's results of operations and financial condition.

NN's residential and commercial mortgage portfolio is exposed to the risk of default by borrowers and to declines in real estate prices; these exposures are concentrated in the Netherlands.

As at 31 December 2013, NN's residential and commercial mortgage loan portfolio amounted to EUR 14,218 million, which is primarily held by NN Bank and NN Life. NN is exposed to the risk of default by borrowers under these mortgage loans. Borrowers may default on their obligations due to bankruptcy, lack of liquidity, downturns in the economy generally or declines in real estate prices, operational failure, fraud or other reasons. The value of the secured property in respect of these mortgage loans is exposed to decreases in real estate prices, arising for instance from downturns in the economy generally, oversupply of properties in the market, and changes in tax regulations related to housing (such as the decrease in deductibility of interest on mortgage payments). Furthermore, the value of the secured property in respect of these mortgage loans is exposed to destruction and damage resulting from floods and other natural and man-made disasters. Damage or destruction of the secured property also increases the risk of default by the borrower. For NN, all of these exposures are concentrated in the Netherlands because the mortgage loans have been advanced, and are secured by commercial and residential property, in the Netherlands. As at 31 December 2013, almost all of the aggregate principal amount of mortgage loans advanced in the Netherlands is secured by residential property, and a negligible amount by commercial property. For the purposes of available regulatory capital of the insurance business in the Netherlands, mortgage loans are valued at fair market value and are therefore exposed to interest rate, prepayment, credit spread and credit default risk. For instance, the model valuation of mortgage loans includes both general credit spreads observed in the financial markets and specific credit spreads that are based on mortgage loan-related financial transactions. If these credit spreads increase, the modelled value of the mortgage loans will decrease, which may result in losses under IFRS (if market value decreases result in impairments) and will cause decreases in NN's available regulatory capital. Furthermore, if economic market conditions in the Netherlands decline (including increases in unemployment and property price declines), the fair value of the mortgage loan portfolio may decrease. An increase of defaults, or the likelihood of defaults under, the mortgage loans, or a decline in property prices in the Netherlands, has had, and could have, a material adverse effect on NN's results of operations and financial condition.

NN is exposed to the risk of damage to its brands and its reputation.

NN's business and results of operations are, to a certain extent, dependent on the strength of its brands and NN's reputation. NN and its products are vulnerable to adverse market perception as it operates in an industry where integrity, customer trust and confidence are paramount. NN is exposed to the risk that litigation (such as in connection with mis-selling), employee fraud and other misconduct, operational failures, the negative outcome of regulatory investigations, press speculation and negative publicity, amongst others, whether or not founded, could damage its brands or reputation. Any of NN's brands or reputation could also be harmed if products or services recommended by NN (or any of its intermediaries) do not perform as expected or do not otherwise meet customer expectations (whether or not the expectations are founded), or the customer's expectations for the product change.

Negative publicity could be based, for instance, on allegations that NN failed to comply with regulatory requirements or result from failures in business continuity or the performance of NN's information technology (**IT**) systems, loss of customer data or confidential information, unsatisfactory service (support) levels, or insufficient transparency or disclosure of cost allocation (cost loading). Negative publicity adversely affecting NN's brands or its reputation could also result from any misconduct or malpractice by intermediaries, business promoters or other third parties linked to NN (such as strategic partners). Furthermore, negative publicity, and damage to NN's brands or reputation, could result from allegations that NN has invested in, or otherwise done business with, entities and individuals that are, or which become, subject to political or economic sanctions or are blacklisted, or which do not meet environmental and social responsibility standards.

Any damage to NN's brands or reputation could cause existing customers or intermediaries to withdraw their business from NN and potential customers or intermediaries to be reluctant or elect not to do business with NN. Furthermore, negative publicity could result in greater regulatory scrutiny and influence market or rating agencies' perception of NN, which could make it more difficult for NN to maintain its credit ratings, which is an important factor for both intermediaries and customers when considering what insurance company to do business with. Any damage to NN's brands or reputation could cause disproportionate damage to NN's business, even if the negative publicity is factually inaccurate or unfounded.

Prolonged investment underperformance of NN's AuM, or the loss of key investment management personnel, may cause existing customers to withdraw funds and potential customers not to grant investment mandates, which could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

As at 31 December 2013, NN's aggregate AuM had a market value of EUR 174,124 million. When buying investment products or selecting an investment manager, customers (including pension funds and intermediaries) typically consider, among others, the historic investment performance of the product and the individual who is responsible for managing the particular fund. This is also true in relation to certain investment products sold by NN's life insurance and pension business. In the event that NN does not provide satisfactory or appropriate investment returns now or in the future, underperforms in relation to its competitors or does not sell an investment product which a customer requires or is deemed suitable, existing customers (including pension funds) may decide to reduce or liquidate their investment, negotiate alterations of their existing agreements with NN, or transfer their mandates to another investment manager. Each of these results may also occur if NN were to lose key investment management personnel, or an entire fund management team, as this may impair customer confidence levels in the particular fund or asset class. In addition, potential customers may decide not to grant investment mandates. As the portfolio management fees charged by NN to its customers are based largely on the value of AuM, a prolonged period of investment underperformance, or a decline in AuM for the other reasons noted above, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

Previously unknown risks, so-called "emerging risks", which cannot be reliably assessed, could lead to unforeseeable claims, which could have a material adverse effect on NN's business, results of operations and financial condition.

The term "emerging risks" is used in the insurance industry to refer to previously unknown risks that could cause substantial future losses and, therefore, are of major concern to insurance companies. Even more so than traditional risks, emerging risks are difficult to analyse because they often exist as hidden risks. Insurance premiums for emerging risks are difficult to calculate due to a lack of historical data about, or experience with, such risks or their consequences. At present, the consequences of potential worldwide climate change are considered emerging risks. There is a wide scientific consensus, and a growing public conviction, that globally increasing emissions of greenhouse gases, especially carbon dioxide, are causing an increase in average worldwide surface temperatures. This increase in average temperatures could increase the frequency of hurricanes, floods, droughts, and forest fires, and could cause sea levels to rise due to the melting of the polar ice caps. Other examples of emerging risks are demographic changes (such as the aging of the population), epidemics and pandemics, and risks that may arise from the development of nanotechnology and genetic engineering.

Despite its efforts at early identification and continuous monitoring of emerging risks, NN cannot give any assurance that it has been or will be able to identify all emerging risks and to implement pricing and reserving measures to avoid or minimise claims exposure to them. Defects and inadequacies in the identification and response to emerging risks could lead to unforeseen policy claims and benefits and could have a material adverse effect on NN's business, results of operations, financial condition and prospects.

NN may not be able to protect its intellectual property rights, and may be subject to infringement claims by third parties, which may have a material adverse effect on NN's business and results of operations.

In the conduct of its business, NN relies on a combination of contractual rights with third parties and copyright, trademark, trade name, patent and other intellectual property rights laws to establish and protect its intellectual property. Third parties may infringe or misappropriate NN's intellectual property. NN may have to litigate to enforce and protect its copyrights, trademarks, trade names, patents, trade secrets and know-how or to determine their scope, validity or enforceability. In that event, NN may be required to incur significant costs, and NN's efforts may not be successful. The inability to secure or protect intellectual property could have a material adverse effect on NN's business and its ability to compete.

NN may also be subject to claims by third parties for (a) infringement of intellectual property rights, (b) breach of copyright, trademark or licence usage rights, or (c) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If NN were found to have infringed or misappropriated a third party patent or other intellectual property right, NN may in some circumstances be enjoined from providing certain products or services to its customers or from utilising and benefiting from certain methods, processes, copyrights, trademarks, trade names, trade secrets or licences. Alternatively, NN may be required to enter into costly licensing arrangements with third parties or to implement an alternative, which may prove costly. Any of these scenarios could have a material adverse effect on NN's business and results of operations.

REGULATORY AND LITIGATION RISKS

NN is subject to comprehensive insurance, investment management, banking, pension and other financial services laws and regulations, and to supervision by many regulatory authorities that have broad administrative powers over NN. These laws and regulations have been and will be subject to changes, the impact of which is uncertain. Failure to comply with applicable laws and regulations may trigger regulatory intervention which may harm NN's reputation, and could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is subject to comprehensive insurance, investment management, banking, pension and other financial services laws and regulations, and to supervision by many regulatory authorities that have broad administrative and discretionary power over NN. Amongst others, the laws and regulations to which NN is subject concern: capital adequacy requirements; liquidity requirements; permitted investments; the distribution of dividends, product and sales suitability; product distribution; payment processing; employment practices; remuneration; ethical standards; anti-money laundering; anti-terrorism measures; prohibited transactions with countries and individuals that are subject to sanctions or otherwise blacklisted; anti-corruption; privacy and confidentiality; recordkeeping and financial reporting; price controls, and exchange controls. See "*Supervision and Regulation*".

The laws and regulations to which NN is subject are becoming increasingly more extensive and complex and regulators are focusing increased scrutiny on the industries in which NN operates, and on NN itself, placing an increasing burden on NN's resources and expertise, and requiring implementation and monitoring measures that are costly. In some cases, the laws and regulations to which NN is subject have increased because governments are increasingly enacting laws that have an extra-territorial scope. Regulations to which NN is, and may be, subject may limit NN's activities, including through its net capital, customer protection and market conduct requirements, may negatively impact NN's ability to make autonomous decisions in relation to its businesses and may limit the information to which NN has access in relation to those businesses, and result in restrictions on businesses in which NN can operate or invest, each of which may have a material adverse effect on NN's business, results of operations and prospects. As compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in laws and regulations have increased, and may further increase, the cost of compliance has increased and is expected to continue to increase.

Laws, regulations and policies currently governing NN have changed, and may continue to change in ways which has had and may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects. See "*—Regulatory and Litigation Risks—The impact on NN of recent and ongoing financial regulatory reform initiatives is uncertain*". NN cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have.

Financial regulation in the Member States in which NN operates is mainly based on EU directives. However, differences may occur in the regulations of various Member States, and such differences between the regulations of Member States may place NN's business at a competitive disadvantage in comparison to other European financial services groups.

Despite NN's efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, these compliance procedures may be inadequate or otherwise ineffective, including as a result of human or other operational errors in their implementation, and NN might fail to meet applicable standards. NN may also fail to comply with applicable laws and regulations as a result of unclear regulations, regulations being subject to multiple interpretations or being under development, or as a result of a shift in the interpretation or application of laws and regulations (including EU Directives) by regulators. Failure to comply with any applicable laws and regulations could subject NN to administrative penalties and other enforcement measures imposed by a particular governmental or self-regulatory authority, and could lead to unanticipated costs associated with remedying such failures (including claims from NN customers) and adverse publicity, harm NN's reputation, cause temporary interruption of operations, and could cause revocation or temporary suspension of the licence. Each of these risks, should they materialise, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

The impact on NN of recent and ongoing financial regulatory reform initiatives is uncertain.

Financial regulatory reform initiatives could have adverse consequences for the financial services industry generally, including NN. Recent and ongoing regulatory reform initiatives include, amongst others:

- ***Solvency II***. The EU is adopting a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II', but the full impact and timing of implementation of Solvency II is uncertain. See "*—Regulatory and Litigation Risks—The EU is adopting a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II'. The EC is currently in the process of amending Solvency II and preparing level 2 and 3 implementation measures. The full impact and timing of implementation of Solvency II is uncertain*".
- ***Theoretical Solvency Criterion regulation in the Netherlands (also known as 'Solvency 1.5')***. In anticipation of the more risk-based approach under Solvency II the Dutch legislator has, inter alia, subjected Dutch life insurance companies to the TSC (also known as 'Solvency 1.5'), which reflects a minimum solvency margin required in certain stress scenarios. The TSC is calculated on an annual basis, and the scenario analysis is based on specific risks, including interest rate risk, equity risk, spread risk, property risk, longevity risk and mortality risk. The TSC applies to NN's life insurance business in the Netherlands. If the solvency position of the relevant NN life insurance entity is below the TSC, DNB is entitled to require that a declaration of no objection be obtained from DNB before making any distributions of capital (including dividends) and reserves to the Issuer and DNB is also entitled to require that the relevant entity submit a recovery plan. In determining whether to give the approval to permit distributions, DNB must be satisfied that the life insurance company will have sufficient available regulatory capital for at least the following 12 months. Available regulatory capital can be determined on a market consistent basis under the Dutch Financial Supervision Act and, if so determined, will be volatile. There is a risk that the entities that conduct NN's life insurance business may not meet the TSC and that DNB may not permit those entities to distribute dividends or reserves to the Issuer. This could affect the Issuer's ability to meet its obligations to its creditors, including Noteholders. In addition, the TSC may make it more difficult for NN to attract capital than those of its peers who are not subject to such similar requirements under their local laws. Under Dutch law DNB has discretionary powers to give instructions on the application of the Issuer's funds to strengthen the capital

position of its Dutch regulated subsidiaries to levels above minimum regulatory capital requirements, which may affect the ability of the Issuer to meet its obligations to its creditors, including Noteholders. The TSC is also relatively new legislation and there is uncertainty as to how it will be interpreted and implemented by DNB, with the risk that DNB interprets and implements the requirements in a manner that is more onerous for NN than NN currently anticipates.

- ***Dutch Intervention Act***. In June 2012, the Dutch Intervention Act (*Wet bijzondere maatregelen financiële ondernemingen*) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Dutch Intervention Act grants far-reaching new powers to DNB and the Dutch Minister of Finance to intervene in situations where an institution, including a financial group such as NN, faces financial difficulties or where there is a serious and immediate risk to the stability of the Dutch financial system caused by an institution in difficulty. The Dutch Intervention Act will need to be amended as a result of the entry into force of the proposed EU Directive on the recovery and resolution of credit institutions and investments firms which was published on 6 June 2012 and is still under debate at the European level in Brussels (the **Recovery and Resolution Directive**). Under the Dutch Intervention Act, substantial new powers have been granted to DNB and the Dutch Minister of Finance enabling them to deal with ailing Dutch banks and insurance companies prior to insolvency. The measures allow them to commence proceedings which may lead to (a) the transfer of all or part of the business (including, in the case of a bank, deposits) of an ailing bank or insurance company to a private sector purchaser, (b) the transfer of all or part of the business of an ailing bank or insurance company to a "bridge entity", (c) the transfer of the shares in an ailing bank or insurance company to a private sector purchaser or a "bridge entity", (d) immediate interventions by the Dutch Minister of Finance concerning an ailing bank or insurance company, and (e) public ownership (nationalisation) of (i) all or part of the business of an ailing bank or insurance company or (ii) all or part of the shares or other securities issued by an ailing bank or insurance company or its holding company. The Dutch Intervention Act also contains measures that limit the ability of counterparties to invoke contractual rights (such as contractual rights to terminate or to invoke a right of set-off or to require security to be posted) if the right to exercise such rights is triggered by intervention of DNB or the Dutch Minister of Finance based on the Dutch Intervention Act or by a circumstance which is the consequence of such intervention. There is a risk that the exercise of powers by DNB or the Dutch Minister of Finance under the Dutch Intervention Act could have a material adverse effect on the performance by the failing institution, including the Issuer, of its payment and other obligations under debt securities, including the Notes, or result in the expropriation, write-off, write-down or conversion of securities such as shares and debt obligations issued by the failing institution or its parent, including the Issuer.

- ***Crisis management***. On 6 June 2012, the EC published the draft Crisis Management Framework Directive. It is still under discussion at the European Parliament and the European Council, but the most important elements of the proposal are recovery and resolution planning, bail-in requirements and the financing of resolution arrangements. Bail-in requirements are scheduled to enter into force by 2018. It is expected that banks, including NN Bank, will be obliged to contribute to a so-called resolution fund. The contribution amounts have not yet been determined and, with respect to bail-in requirements, it is unclear what amounts banks, including NN Bank, will need to hold. On 5 October 2012, the EC launched a consultation on a possible framework for the recovery and resolution of financial institutions other than banks. It examined whether and how the failure of different kinds of non-bank financial institutions, notably central counterparties, central securities depositaries, and global systemically important insurance companies, should be managed by specific steps to ensure orderly recovery and resolution where necessary. The consultation closed on 28 December 2012. In anticipation of this crisis management framework, regulators may impose a requirement to maintain a plan for rapid recovery or orderly dissolution in the event of severe financial distress, which may include binding instructions on the management of the business or to transfer authority to manage the relevant company to the regulator. If this were to happen to NN, NN cannot predict how rating agencies, or NN's creditors, would respond or whether, or how, this would impact NN's financing and hedging costs.

- ***Insurance guarantee schemes***. Certain jurisdictions in which NN's insurance subsidiaries operate require that life insurers doing business within the jurisdiction participate in guarantee associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. The occurrence of such a guarantee event may give rise to an obligation on the relevant insurance subsidiary to pay significant amounts under the guarantee. Insurance guarantee schemes may also oblige insurers to make annual payments to the guarantee association. An insurance guarantee scheme has been in place in Japan since 1999, and NN is obliged to make annual contributions to the guarantee scheme; NN's contribution represented 0.14% of its gross premium income in 2013. The EC has been discussing EU-wide insurance guarantee schemes for several years and intends to introduce an EU directive on insurance guarantee schemes. As at the date of this Prospectus, no proposals for this directive have yet been published. Any introduction of insurance guarantee schemes to which NN is subject may impact NN's results of operations.

- ***Remuneration under CRD IV***. As from 2011, credit institutions and investment firms based in European Member States have to comply with the variable pay constraints following from CRD III. These variable pay constraints are applicable to the international operations of credit institutions and investment firms based in Member States. DNB has implemented these variable pay constraints and has extended the scope of the variable pay constraints to include Dutch-based insurance companies and their group companies, As a result the variable pay constraints apply to the insurance, bank and investment management activities of NN, including the Issuer. Accordingly, unlike its competitors in the U.S., Asia and other European countries, NN has to apply these variable pay constraints to staff in its European, U.S. and Asian operations. These pay constraints may limit NN's ability to attract and retain talented staff. As of 1 January 2014, the pay constraints pursuant to CRD IV, including a bonus cap of 100% of fixed pay (or 200% if shareholders approve), came into force, subject to the implementation in Dutch legislation, which is expected mid 2014. In principle, the CRD IV bonus cap does not apply to Dutch-based insurance companies. However, on 26 November 2013, the Dutch Minister of Finance circulated a draft bill for the Act on remuneration policies for financial enterprises (*Wet beloningsbeleid financiële ondernemingen*), which bill will also be applicable to Dutch-based insurance companies and their group companies. The draft bill provides for a variable remuneration cap of 20% of fixed pay. Persons covered by a collective labour agreement in the Netherlands are subject to an individual cap of 20%. Other persons in the Netherlands are subject to an aggregated cap of 20%. For this group, as well as for persons working outside the Netherlands in the EU or outside the EU, exceptions are possible, in line with CRD IV, but only under strict conditions. In addition, the proposal limits exit compensation and retention compensation and prohibits guaranteed variable remuneration. It is currently expected that the proposal will result in legislation being adopted in the course of 2014 and becoming effective in 2015, which will also be applicable to Dutch-based insurance companies. Although exceptions to the 20% cap will be available, these new pay constraints may further limit NN's ability to attract and retain talented staff.

- ***SIFIs***. As a result of the financial crisis, international and domestic regulators have moved to protect the global financial system by adopting regulations intended to prevent the failure of systemically important financial institutions (**SIFIs**) or, if one does fail, limiting the adverse effects of its failure. In November 2011, the Financial Stability Board published a list of global systemically important financial institutions (**G-SIFIs**). Subsequently, in July 2013, the Financial Stability Board designated nine global insurance companies as global systemically important insurers (**G-SIIs**). As a result, these firms will be subject to enhanced supervision and increased regulatory requirements in the areas of recovery and resolution planning as well as capital. The implementation deadlines for these requirements start as early as July 2014 and, in the case of additional capital requirements, extend to 2019. The list of G-SIIs is expected to be updated annually and published in November every year, starting from November 2014. Although NN does not expect to be designated a G-SIFI or a G-SII, it cannot be ruled out that this or similar supervision and regulation will apply to NN in the future.

- ***ComFrame***. On 2 July 2012, the International Association of Insurance Supervisors (**IAIS**) released a working draft on the ComFrame "Insurance core principles". **ComFrame**, short for "Common Framework for the Supervision of Internationally Active Insurance Groups (**IAIGs**)", has three main objectives: (a) to develop methods of operating group-wide supervision of IAIGs, (b) to establish a comprehensive framework for supervisors to address group-wide activities and risks, and (c) to foster global convergence. The working draft was criticised by supervisors and industry participants for being too detailed and too prescriptive. The IAIS opened ComFrame up for a second round of consultation at the end of 2013. As the content of ComFrame is not expected to be finalised until 2018, its future impact on NN is uncertain.

- ***Financial Transaction Tax***. In February 2013, the EC published a proposed directive for a common financial transaction tax (**FTT**) to be implemented in 11 participating Member States, being Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain, which would together constitute the "FTT-Zone". As at the date of this Prospectus, it has not been proposed that the Netherlands become a participating

Member State. Under the proposed directive, the FTT would have a broad scope and could, inter alia, levy a tax on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is located in the "FTT-Zone". The proposed directive has been subject to public and media scrutiny, several rounds of negotiation by the 11 participating Member States, and the legality of certain aspects of the proposal has been questioned. As of the date of this Prospectus, it is unclear when the FTT will come into force, if at all, and unclear what the content of the FTT would be. As it is not currently contemplated that the Netherlands would be a participating Member State, and thus part of the FTT-Zone, it is expected that even if the FTT were to come into force, its impact on NN's results of operations would be limited (although FTT would have a material impact on the operations of NN's investment management business, which operates throughout Europe, including those countries that are within the contemplated FTT-Zone). However, the impact of the FTT on NN's results of operations could be significantly greater if the Netherlands were to become a participating Member State.

- ***Polish pension fund reform***. In February 2014 new legislation entered into force reforming the Polish pension fund regime. Under this legislation open pension funds were required to transfer 51.5% of the private pension funds' members' assets, including Polish government bonds, to the public social security institution for no consideration. The legislation also provides that the reserves accumulated in the accounts of individuals in an open pension fund will be gradually transferred into the public social security institution over a ten-year period before retirement age. The maximum service fee of open pension funds has also been reduced by 50% to 1.75% of the amount of contributions paid in. Moreover, membership of a private pension fund will no longer be mandatory. Current members will be entitled to choose whether or not to maintain their account in an open pension fund, but if they do not make a choice between 1 April and 31 July 2014 (or other prescribed periods in subsequent years), all future pension contributions will be made to the public social security institution rather than the private pension funds. The new legislation also prohibits open pension funds from making certain investments (including in government bonds and other securities issued or guaranteed by the Polish government). These reforms will significantly reduce NN's income in Poland, as well as the income of open pension fund managers generally.

- ***SEPA***. The introduction of the Single Euro Payments Area (**SEPA**) for the simplification and harmonisation of bank transfers across the EU in 2014 may lead to higher costs and operational difficulties for NN.

- ***FATCA***. Under the provisions commonly referred to as the Foreign Account Tax Compliance Act (**FATCA**), which was enacted as part of U.S. federal tax legislation passed in 2010, a 30% withholding tax will be imposed on "withholdable payments" made to non-U.S. financial institutions that fail to provide certain information regarding their U.S. accountholders and certain U.S. investors to the U.S. Internal Revenue Service (**IRS**). Some countries (including the Netherlands) have entered into, and other countries are expected to enter into intergovernmental agreements (**IGAs**) with the U.S. to facilitate the type of information reporting required under FATCA. IGAs will often require financial institutions in those countries to report some information on their U.S. accountholders to the taxing authorities of those countries, which will then pass the information on to the IRS.

  NN intends to take all necessary steps to comply with FATCA (including entering into such agreements with the U.S. tax authorities or complying with any legislation implementing an IGA as may be required). However, if NN cannot enter into such agreements or satisfy the requirements thereunder or comply with any legislation implementing an IGA (including as a result of local laws in non-IGA countries prohibiting information-sharing with the IRS, as a result of contracts or local laws prohibiting withholding on certain payments to accountholders, policyholders, annuity holders or investors, or as a result of the failure of accountholders, policyholders, annuity holders or investors to provide requested information), certain payments made to NN may be subject to withholding under FATCA (including payments to investment vehicles under NN's management). The possibility of such withholding and the need for accountholders, policyholders, annuity holders and investors to provide certain information may adversely affect the sales of certain of NN's products. In addition, entering into agreements with the IRS, compliance with the terms of such agreements and with FATCA, any regulations or other guidance promulgated thereunder or any legislation promulgated under an IGA may substantially increase NN's compliance and operational costs. Because legislation and regulations implementing FATCA and the IGAs remain under development, the future impact of FATCA on NN is uncertain.

- ***Revision of Insurance Mediation Directive***. On 3 July 2012 the European Commission published proposals for a revision of the Insurance Mediation Directive (**IMD2**). Key proposals are, among others, mandatory disclosure requirements obliging insurance intermediaries to disclose to their customers the nature and amount of remuneration they receive, including any contingent commissions, or if the full amount of remuneration cannot be calculated, the basis of its calculation. According to the proposals, mandatory prior disclosure to customers will be required with respect to the amount of commission retained by the intermediary or paid by the insurer. Further, IMD2 will extend the scope of the current Insurance Mediation Directive to cover direct sales by insurance and reinsurance companies without the use of an intermediary. Insurers carrying out direct sales will be required to comply with information and disclosure requirements and certain conduct of business rules, including a general obligation to act honestly, fairly and professionally in accordance with customers' best interests. In the case of the sale of bundled products, for instance, the insurance company will have to inform customers about the possibility to purchase the components of the package separately and about the costs of each component when purchased separately. In addition, the IMD2 proposals set out stricter requirements for the sale of life insurance investment products, for example, the obligation to identify and disclose conflicts of interest or to gather information from customers to assess the appropriateness of the product. If the proposed revisions to the Insurance Mediation Directive are adopted, these changes are likely to have a significant effect on the European insurance market. In particular, the IMD2 proposals are likely to increase NN's compliance obligations regarding direct sales, increasing compliance costs and the complexity of NN's direct sales procedures. The IMD2 proposals are also likely to affect the relationship between NN and its intermediaries in the context of selling insurance products.

- ***CRD IV***. Since the financial crisis, financial institutions, including credit institutions such as NN Bank, have been subject to increased public and regulatory scrutiny, and new laws and regulations have been enacted. These new laws and regulations include the Basel framework. The latest changes in the Basel framework were translated into CRD IV and the EU Capital Requirement Regulation, which will be implemented into the Dutch Financial Supervision Act and is expected to enter into force in the first half of 2014. The EU Capital Requirement Regulation has been directly applicable since 1 January 2014, and has resulted in more stringent rules and, in comparison with the former Dutch framework, additional reporting requirements, in relation to solvency supervision and liquidity supervision. The Basel Committee and the Financial Stability Board are currently considering measures that may have the effect of requiring higher absorbency capacity, liquidity surcharges, exposure limits and special resolutions regimes for systematically important banks.
- ***MIFID reform***. On 20 October 2011, the EC published proposals for the revision of the Markets in Financial Instruments Directive (Directive 2004/39/EC, **MiFID**). The proposals consist of a directive 'MiFID II' and a regulation 'MiFIR'. The revised MiFID inter alia sets stricter requirements for portfolio management, investment advice and the offer of complex financial products such as structured products, and will be particularly relevant for NN's investment management business. Once the directive and regulation are adopted, the regulation will apply directly and the directive will have to be implemented in national legislation. The expected timeframe for implementation is 2016.

For further information on the legal and regulatory laws and regulations to which NN is subject, see "*Supervision and Regulation*". The continuing introduction of new regulation, if applicable to NN, could significantly impact the manner in which it operates and could materially and adversely impact the profitability of one or more of NN's business lines or the level of capital required to support its activities. New laws may include the expropriation or nationalisation of assets of NN or its customers (as has occurred in connection with the pension regime reform in Poland). Although the full impact of the regulations described above cannot be determined, including as a result of discretions granted to regulators, uncertainties as to the interpretation and implementation of the regulations by regulators and governmental bodies and, in the case of regulations that have not yet been finalised, until the content of the regulations themselves has become clear, many of their requirements could have material and adverse consequences for the financial services industry, including for NN. These regulations could make it more expensive for NN to conduct its business, require that NN make changes to its business model, require that NN satisfy increased capital requirements, necessitate time-consuming and costly implementation measures, or subject NN to greater regulatory scrutiny, which could, individually or in the aggregate, have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

The EU is adopting a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II'. The EC is currently in the process of amending Solvency II and

preparing level 2 implementing measures and implementing technical standards. The full impact and timing of implementation of Solvency II is uncertain.

The EU is adopting a full scale revision of the solvency framework and prudential regime applicable to insurance, reinsurance companies and insurance groups known as 'Solvency II'. The framework for Solvency II is set out in the Solvency II Directive, which was adopted by the European Council on 10 November 2009 (Directive 2009/138/EC). On 19 January 2011, the European Commission (the **EC**) presented a draft of a directive to amend the Solvency II Directive, the Omnibus II directive.

Solvency II is aimed at creating a new solvency framework in which the financial requirements that apply to an insurance, reinsurance company and insurance group, better reflect such company's specific risk profile. Solvency II will introduce economic risk-based solvency requirements across all Member States for the first time. While Solvency I includes a relatively simple solvency formula based on technical provisions and insurance premiums, Solvency II introduces a new 'total balance sheet' type regime where insurers' material risks and their interactions are considered. In addition to these quantitative requirements (Pillar 1), Solvency II also sets requirements for governance, risk management and effective supervision (Pillar 2), and disclosure and transparency requirements (Pillar 3). See "*Supervision and Regulation—EU Regulatory Framework—Insurance and insurance-related regulation—Solvency II Directive*".

Under Pillar 1 of Solvency II, insurers are required to hold own funds equal to or in excess of a solvency capital requirement (**SCR**). Solvency II will categorise own funds into three tiers with differing qualifications as eligible available regulatory capital. Under Solvency II, own funds will use IFRS balance sheet items where these are at fair value and replace other balance sheet items using market consistent valuations. The determination of the technical provisions and the discount rate to be applied in determining the technical provisions is still under debate and the outcome of discussions regarding these matters is uncertain as key parameters will only be established in the level 2 implementing measures and implementing technical standards. However, it is certain that the determination of the technical provisions and the discount rate to be applied will have a material impact on the amount of own funds and the volatility of the level of own funds. The SCR is a risk-based capital requirement which will be determined using either the standard formula (set out in level 2 implementing measures), or, where approved by the relevant supervisory authority, an internal model. The internal model can be used in combination with, or as an alternative to, the standard formula as a basis for the calculation of an insurer's SCR. In the Netherlands, such a model (which would include an internal model of NN) must be approved by DNB.

It is not certain when Solvency II will be finalised, nor what the final form of Solvency II (including the level 2 implementing measures and the implementing technical standards) will contain. On 13 November 2013 the EC announced that Solvency II will come into force on 1 January 2016. However, given previous changes to the effective date of Solvency II and the possibility of further changes to the regime, there remains some uncertainty as to when Solvency II will become effective. Accordingly, the future effect of Solvency II on NN's business, solvency margins and capital requirements is uncertain.

While the aim of Solvency II is to introduce a harmonised, risk-based approach to solvency capital, there is a risk of differences in interpretation and a risk of a failure by financial services regulators to align Solvency II approaches across Europe, resulting in an unequal competitive landscape. This risk may be exacerbated by discretionary powers afforded to financial services regulators in Member States. Moreover, it could be that Solvency II will include transitional provisions that will allow companies to continue to value assets and liabilities under the pre-Solvency II valuation rules. At present pre-Solvency II valuation rules in many countries are less onerous and significantly less affected by market volatility than is (or will be) the case under the Solvency II valuation requirements. This is not the case for the Netherlands, where the current legislative framework requires the valuation of insurance liabilities at lower discount rates than under Solvency II and creates higher volatility. It is therefore unlikely that NN will derive the full benefit of any such transitional measures, even were they to be introduced in the Netherlands, whereas certain of NN's competitors may benefit from such transitional measures, thus placing NN's business at a competitive disadvantage.

Should NN not be able to adequately comply with the Solvency II requirements in relation to capital, risk management, documentation, and reporting processes, this could have a material adverse effect on its business, solvency, results of operations and financial condition.

NN is subject to stress tests and other regulatory enquiries. Stress tests and the announcement of the results by regulatory authorities can destabilise the insurance sector and lead to a loss of trust with regard to individual companies or the insurance sector as a whole. Such stress tests, and the announcement of the results, could negatively impact NN's reputation and financing costs and trigger enforcement actions by regulatory authorities.

In order to assess the level of available capital in the insurance sector, the national and supra-national regulatory authorities (such as EIOPA) require solvency calculations and conduct stress tests where they examine the effects of various adverse scenarios on insurers (for example a strong decline in interest rates). In addition, regulators have carried out a number of studies on the quantitative effects of proposed changes to capital rules in the recent past (quantitative impact studies), particularly with regard to the Solvency II Directive. Announcements by regulatory authorities that they intend to carry out such tests can destabilise the insurance sector and lead to a loss of trust with regard to individual companies or the insurance sector as a whole. In the event that NN's results in such a calculation or test are worse than those of its competitors and these results become known, this could also have adverse effects on NN's financing costs, customer demand for NN's products and NN's reputation. Furthermore, a poor result by NN in such calculations or tests could influence regulatory authorities in the exercise of their discretionary powers.

Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is subject to litigation, arbitration and other claims and allegations, including in connection with its activities as insurer, lender, employer, investor and taxpayer. The occurrence of such events could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect NN's ability to attract and retain customers and maintain its access to the capital markets, result in cease-and-desist orders, claims, enforcement actions, fines and civil and criminal penalties, other disciplinary action, or have other material adverse effects on NN in ways that are not predictable. Some claims and allegations may be brought by or on behalf of a class, and claimants may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and punitive damages. See "*—Regulatory and Litigation Risks—Holders of NN's products where the customer bears all or part of the investment risk, or consumer protection organisations on their behalf, have filed claims or proceedings against NN and may continue to do so. A negative outcome of such claims and proceedings brought by customers or organisations acting on their behalf, actions taken by regulators or governmental authorities against NN or other insurers in respect of unit-linked products, settlements or any other actions for the benefit of customers by other insurers and sector-wide measures could substantially affect NN's insurance business and, as a result, may have a material adverse effect on NN's business, reputation, revenues, results of operations, solvency and financial condition. In addition, claims and proceedings may be brought against NN in respect of other products with one or more similar product characteristics sold, issued or advised on by NN in and outside the Netherlands*" and "*—Regulatory and Litigation Risks—NN is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received*". NN's reserves for litigation liabilities may prove to be inadequate. Claims and allegations, should they become public, need not be well founded, true or successful to have a negative impact on NN's reputation. In addition, press reports and other public statements that assert some form of wrongdoing on the part of NN or other large and well-known companies (including as result of financial reporting irregularities) could result in adverse publicity and in inquiries or investigations by regulators, legislators and law enforcement officials, and responding to these inquiries and investigations, regardless of their ultimate outcome, is time-consuming and expensive.

Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects in any given period. For a description of litigation concerning NN, see "*Business—Legal Proceedings*".

Holders of NN's products where the customer bears all or part of the investment risk, or consumer protection organisations on their behalf, have filed claims or proceedings against NN and may continue to do so. A negative outcome of such claims and proceedings brought by customers or organisations acting on their behalf, actions taken by regulators or governmental authorities against NN or other insurers in respect of unit-linked products, settlements or any other actions for the benefit of customers by other insurers and sector-wide measures could substantially affect NN's insurance business and, as a result, may have a material adverse effect on NN's business, reputation, revenues, results of operations, solvency and financial condition. In addition, claims and proceedings may be brought against NN in respect of other products with one or more similar product characteristics sold, issued or advised on by NN in and outside the Netherlands.

Since the end of 2006, unit-linked products (commonly referred to in Dutch as '*beleggingsverzekeringen*') have received negative attention in the Dutch media, from the Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 NN's Dutch insurance subsidiaries reached an outline agreement with two main consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies had a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008 costs of the settlements were valued at EUR 365 million for which adequate provisions have been established and of which a substantial portion has been paid out. The remaining unpaid part of the provision as per 31 December 2013 is solely available to cover costs relating to the settlements agreed in 2008. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations, with the second main consumer protection organisation signing its agreement in June 2012. In addition, NN's Dutch insurance subsidiaries announced additional measures (*flankerend beleid*) that comply with the 'Best in Class' criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an additional agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about the compensation. The agreements with the two consumer protection organisations are not binding on policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures offered by NN prevent individual policyholders from initiating legal proceedings against NN's Dutch insurance subsidiaries and making claims for damages.

NN's Dutch insurance subsidiaries have issued, sold or advised on approximately one million individual unit-linked policies. As noted above, there has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings and there is a risk that one or more of these legal challenges will succeed. Customers of NN's Dutch insurance subsidiaries have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an on-going basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to his personal circumstances, (d) NN owed the customer a duty of care which NN has breached, or (e) the insurer failed to warn of the risk of not realising the projected policy values. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. NN is currently subject to legal proceedings initiated by individual policyholders and is subject of a number of claims initiatives brought on behalf of policyholders by consumer protection organisations in which claims as set forth above or similar claims are being made. While to date less than 100 complaints are pending before the Dispute Committee of the Financial Services Complaints Board (the **KiFiD**), and less than 200 individual settlements were made, there is no assurance that further proceedings for damages will not be brought. As the current proceedings are only in early stages, the timing of reaching any finality on these legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time. As a result, although the financial consequences of any of these factors or a combination thereof could be substantial for the Dutch insurance business of NN and, as a result, may have a material adverse effect on NN's reputation, results of operations, solvency and financial condition, it is not possible to reliably estimate or quantify NN's exposures at this time. See "*Business—Legal Proceedings*".

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

NN has in the past sold, issued or advised on unit-linked products in and outside the Netherlands, and in certain jurisdictions continues to do so. Moreover, NN has in the past, in the Netherlands and other countries, sold, issued or advised on large numbers of insurance or investment products of its own or of third parties (and in some jurisdictions continues to do so) that have one or more product characteristics similar to those unit-linked products that have been the subject of the scrutiny, adverse publicity and claims in the Netherlands. Given the continuous political, regulatory and public attention on the unit-linked issue in the Netherlands, the increase in legal proceedings and claim initiatives in the Netherlands or the legislative and regulatory developments in Europe to further increase and strengthen consumer protection in general, there is a risk that unit-linked products and other insurance and investment products sold, issued or advised on by NN, may become subject to the same or similar levels of regulatory or political scrutiny, publicity and claims or actions by consumers, consumer protection organisations, regulators or governmental authorities.

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

Any of the developments described above could be substantial for NN and as a result may have a material adverse effect on NN's business, reputation, revenues, results of operations, solvency, financial condition and prospects.

NN is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received.

NN's life insurance, non-life insurance, investment and pension products and advice services for third party products are exposed to claims from customers who allege that they have received misleading advice or other information from advisers (both internal and external) as to which products were most appropriate for them, or that the terms and conditions of the products, the nature of the products or the circumstances under which the products were sold, were misrepresented to them. When new financial products are brought to the market, NN engages in a product approval process in connection with the development of such products, including production of appropriate marketing and communication materials. Notwithstanding these processes, customers may make claims against NN if the products do not meet customer expectations. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, influence customer expectations.

Products distributed through person-to-person sales forces have a higher exposure to these claims as the sales forces provide face-to-face financial planning and advisory services. Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and resources have been invested in reviewing and assessing historic sales practices, and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated.

The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and regulatory changes resulting from such issues, have had and may continue to have a material adverse effect on NN's business, reputation, revenues, results of operations, financial condition and prospects. See "*—Regulatory and Litigation Risks—Holders of NN's products where the customer bears all or part of the investment risk, or consumer protection organisations on their behalf, have filed claims or proceedings against NN and may continue to do so. A negative outcome of such claims and proceedings brought by customers or organisations acting on their behalf, actions taken by regulators or governmental authorities against NN or other insurers in respect of unit-linked products, settlements or any other actions for the benefit of customers by other insurers and sector-wide measures could substantially affect NN's insurance business and, as a result, may have a material adverse effect on NN's business, reputation, revenues, results of operations, solvency and financial condition. In addition, claims and proceedings may be brought against NN in respect of other products with one or more similar product characteristics sold, issued or advised on by NN in and outside the Netherlands*".

The Issuer and its regulated subsidiaries are required to maintain significant levels of capital and to comply with a number of regulatory requirements relating thereto. If the Issuer or its regulated subsidiaries were in danger of failing, or fail, to meet minimum capital requirements or to maintain sufficient assets to satisfy certain regulatory requirements, the supervisory authorities have broad authority to require them to take steps to protect policyholders and other clients and to compensate for capital shortfalls and to limit the ability of the Issuer's subsidiaries to pay dividends or distributions to the Issuer.

The Issuer and its regulated subsidiaries are required to maintain significant levels of capital and to comply with a number of regulatory requirements relating thereto. NN's supervisory authorities could require it to take remedial action if the Issuer or any of its regulated subsidiaries breaches or is at risk of breaching any of the regulatory capital requirements. Amongst others, such breaches could be as a result of new regulatory requirements, including Solvency II when it becomes effective, or as a result of material adverse developments in the legal proceedings associated with the Dutch unit-linked policies or any of the legal and regulatory developments described above. In addition, the supervisory authorities could decide to increase the regulatory capital requirements of the Issuer or any of its regulated subsidiaries. In this regard, under Dutch law DNB has discretionary powers to give instructions on the application of the Issuer's funds to strengthen the capital position of its Dutch regulated subsidiaries to levels above minimum regulatory capital requirements, which may affect the ability of the Issuer to meet its obligations to its creditors, including Noteholders. Remedial action could include working closely with the authorities to protect policyholders' interests and to restore the Issuer's or the individual subsidiary's capital and solvency positions to acceptable levels and to ensure that the financial resources necessary to meet obligations to policyholders are maintained. In taking any such remedial action, the interests of the policyholders would take precedence over those of Noteholders.

If NN is unable to meet its regulatory requirements by redeploying existing available capital, it would have to consider taking other measures to protect its capital and solvency position. These measures might include divesting parts of its business, which may be difficult or costly or result in a significant loss. NN might also have to raise additional capital in the form of subordinated debt or equity.

Raising additional capital from external sources might be impossible due to factors outside NN's control, such as market conditions, or it might be possible only on unfavourable terms. Any of these measures could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects. If the regulatory requirements are not met (because NN could not take appropriate measures or because the measures were not sufficiently effective) NN could lose any of its licences and hence be forced to cease some or all of its business operations.

The capital requirements applicable to NN are subject to ongoing regulatory change. A breach of capital requirements may also limit the ability of a regulated subsidiary to pay dividends or distributions to the Issuer (including pursuant to the TSC. See "*—Regulatory and Litigation Risks—The impact on NN of recent and ongoing financial regulatory reforms is uncertain—Theoretical Solvency Criterion regulation in the Netherlands (also known as 'Solvency 1.5')*").

NN has divested a substantial part of its insurance and investment management businesses over the past several years through private sales and public offerings (including as required by and within the timeframe agreed with the EC as laid down in the EC Restructuring Plan), in respect of which the sellers have given representations, warranties, guarantees, indemnities and other contractual protections to the purchasers of these businesses that may, should claims arise, have a material adverse effect on NN's results of operations, financial condition and prospects.

NN has divested a substantial part of its insurance and investment management businesses (including as required by and within the timeframe agreed with the EC as laid down in the EC Restructuring Plan) in the United States, Latin America, Asia and Australia over the past years through private sales and public offerings. The aggregate sales proceeds of the divestments that closed in 2011, 2012 and 2013 (see "*Business—Material agreements—Acquisitions and disposals*") were EUR 8.5 billion. Other than the initial public offering of ING U.S., these divestments were carried out by way of competitive auction processes. In respect of these divestments, the relevant members of the NN group have given representations, warranties, guarantees, indemnities and other contractual protections to the relevant purchasers and as a result may be subject to claims from the purchasers. The contractual protections given in relation to certain divestments might be considered more purchaser-friendly than protections generally given by sellers in these types of transactions, taking into account the requirements and timeframe for these divestments as agreed with the EC. Liability of NN as a result of claims made by purchasers could materially and adversely affect NN's results of operations, financial condition and prospects. In respect of the divestments of the former subsidiaries in the United States and Latin America, with aggregate sales proceeds of EUR 4.0 billion, NN has been indemnified by ING Groep against such claims (see "*Business—Material Agreements—Indemnification and allocation agreement*").

Changes in tax laws could materially impact NN's tax position which could affect the ability of the Issuer to make payments to Noteholders and the ability of the Issuer's subsidiaries to make direct and indirect distributions to the Issuer. Changes in tax laws may make some of NN's insurance, pensions, investment management and banking products less attractive to customers, decreasing demand for certain of NN's products and increasing surrenders of certain of NN's in-force life insurance policies, which may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

Changes in the applicable tax legislation, in the interpretation of existing tax laws, amendments to existing tax rates, or the introduction of new tax legislation, specifically with respect to taxation of insurance companies, could lead to a higher tax burden on NN, materially impact NN's tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities, and could have a material adverse effect on NN's business, results of operations and financial condition.

Amendments to applicable laws, orders and regulations may be issued or altered with retroactive effect. Additionally, tax authorities may change their interpretations of tax laws at any time, which may lead to a higher tax burden on NN. While changes in taxation laws would affect the insurance sector as a whole, changes may be more detrimental to particular operators in the industry.

A higher tax burden on NN could negatively impact both the ability of the Issuer to make payments to Noteholders and the ability of the Issuer's subsidiaries to make direct and indirect distributions to the Issuer, which may in turn adversely impact the ability of the Issuer to make payments to Noteholders. Similarly, the design of certain of NN's products is predicated on tax legislation valid at that time and these products may be attractive to customers because they afford certain tax benefits. For example, individual life insurance policyholders can under certain conditions deduct their payments from their taxable income. Future changes in tax legislation or its interpretation may, when applied to these products, have a material adverse effect on policyholder returns and NN's customers' demand for these products, including insurance, pensions, investment management and banking products.

Moreover, changes in governmental policy, such as in relation to government subsidised pension plans, or changes in local tax or legal regulations, such as changes in taxation of certain life and health insurance products, may affect NN's clients' ability or willingness to do business with NN and may thus adversely affect demand of NN's insurance products or result in increased surrenders of certain of NN's in-force life insurance policies. See "*—Risks Related to General Economic and Market Conditions—Certain subsidiaries of the Issuer may be subject to liquidity risk, which may not be timely resolved by liquidity available elsewhere in the NN group*".

Any of these developments could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

OPERATIONAL RISKS

NN is subject to operational risks, which can originate from inadequate or failed internal NN processes and systems, the conduct of NN personnel and third parties, and from external events that are beyond NN's control. NN's risk management policies and procedures may be inadequate, or may otherwise not be fully effective. Should operational risks occur they may have a material adverse effect on NN's business, revenues, results of operations and financial condition.

NN is subject to operational risks, which risks can originate from inadequate or failed internal NN processes and systems, the conduct of NN personnel and third parties (including intermediaries, tied agents and other persons engaged by NN to sell and distribute its products and to provide other services to NN), and from external events that are beyond NN's control. NN's internal risk management processes and systems may be inadequate or may otherwise fail to be fully effective due to the failure by NN personnel and third parties (including intermediaries, tied agents and other persons engaged by NN to sell and distribute its products and to provide other services to NN) to comply with internal business policies or guidelines, and (unintentional) human error (including during transaction processing), which may result in, among others: the incorrect or incomplete storage of files, data and important information (including confidential customer information); inadequate documentation of contracts; mistakes in the settlement of claims (for instance, where a claim is incorrectly assessed as valid, or where the insured receives an amount in excess of that to which the insured is entitled under the relevant contract), and failures in the monitoring of the credit status of debtors.

NN has developed policies and procedures to identify, monitor and manage operational risks, and will continue to do so in the future. However, these policies and procedures may be inadequate, or may otherwise not be fully effective. Moreover, NN's geographical spread, as well as its decentralised governance and risk management structure, may lead to increased operational risks as the effectiveness of its risk management policies and procedures may be reduced for those business units that are situated far from the centralised risk management in the Netherlands.

If any of these operational risks were to occur, it could result in, amongst others, additional or increased costs, errors, fraud, violations of law, investigations and sanctions by regulatory and other supervisory authorities, claims by customers, customer groups and customer protection bodies, loss of existing customers, loss of potential customers and sales, loss of receivables, and harm NN's reputation, any of which, alone or in the aggregate could have a material adverse effect on NN's business, revenues, results of operations, and financial condition.

The occurrence of natural or man-made disasters may endanger the continuity of NN's business operations and the security of NN's employees, which may have a material adverse effect on NN's business, results of operations, financial condition and prospects.

NN is exposed to various risks arising from natural disasters (including hurricanes, floods, fires, earthquakes, including earthquakes in Tokyo, Japan, and disease), as well as man-made disasters and core infrastructure failures (including acts of terrorism, war, military actions, and power grid and telephone/internet infrastructure failures). These natural and man-made disasters may endanger the continuity of NN's business operations and the security of NN's employees, and may adversely affect NN's business, results of operations and financial condition by causing, among other things:

- disruptions of NN's normal business operations due to property damage, loss of life, or disruption of public and private infrastructure, including information technology and communications services, and financial services;
- losses in NN's investment portfolio due to significant volatility in global financial markets or the failure of counterparties to perform; and
- changes in the rates of mortality, longevity and morbidity, claims, premium holidays, withdrawals, lapses and surrenders of existing policies and contracts, as well as sales of new policies and contracts.

NN's business continuity and crisis management plan or its insurance coverage may not be effective in mitigating the negative impact on operations or profitability in the event of a natural or man-made disaster or core infrastructure failure. The business continuity and crisis management plans of NN's distributors and other third party vendors, on whom NN relies for certain distribution and other services and products, may also not be effective in mitigating any negative impact on the provision of such services and products in the event of such a disaster or failure. Claims resulting from such a disaster or failure could also materially harm the financial condition of NN's reinsurers, which would increase the probability of default on reinsurance recoveries and could also limit NN's ability to write new business.

The loss of key personnel, and the failure to attract and retain key personnel with appropriate qualifications and experience, could have a material adverse effect on NN's business and impair its ability to implement its business strategy.

NN's success depends in large part on its ability to attract and retain key personnel with appropriate knowledge and skills, particularly financial, investment, IT, risk management, underwriting, actuarial, Solvency II and other specialist skills and experience. Competition for senior managers as well as personnel with these skills is intense among insurance companies and other financial institutions, and NN may incur significant costs to attract and retain such personnel or may fail to do so. While NN does not believe that the departure of any particular individual would cause a material adverse effect on its operations, the unexpected loss of several members of NN's senior management or other key personnel could have a material adverse effect on its operations due to the loss of their skills, knowledge of NN's business, and their years of industry experience, as well as the potential difficulty of promptly finding qualified replacement personnel.

As from 2011, credit institutions and investment firms based in European Member States have to comply with the variable pay constraints following from CRD III. These variable pay constraints are applicable to the international operations of credit institutions and investment firms based in Member States. DNB has implemented these variable pay constraints and has extended the scope to also include Dutch based insurance companies and their group companies. As a result, the variable pay constraints apply to the insurance, bank and investment management activities of NN, including the Issuer. Accordingly, unlike its competitors in the U.S., Asia and other European countries, NN has to apply these variable pay constraints to staff in its European, U.S. and Asian operations. Existing and new rules pursuant to CRD III and CRD IV regarding variable pay constraints may limit NN's ability to attract and retain talented staff. See "*—Regulatory and Litigation Risks—The impact on NN of recent and ongoing financial regulatory reform initiatives is uncertain—Remuneration under CRD IV*".

On 1 January 2014 the Dutch act on the revision and claw-back of bonuses and profit-sharing arrangements (the **Claw-back Act**) came into force. The Claw-back Act applies to board members of Dutch public companies and Dutch financial institutions, such as banks, investment firms and insurers (including certain of NN's Dutch insurance subsidiaries and NN Bank), as well as to employees of those entities that are in charge of the day-to-day management of those entities. The rules allow for the possibility to (a) revise a bonus prior to payment, if payment of the bonus would be unacceptable pursuant to the criteria of "reasonableness and fairness" and (b) claw back (part of) a paid bonus, if payment took place on the basis of incorrect information on the fulfilment of the bonus targets or conditions for payment of the bonus. There are also specific provisions that apply in the event of a "change of control" of Dutch listed companies. See "*Supervision and Regulation—Dutch regulatory framework—General remuneration—Claw-back of* *bonuses*". These new rules may limit NN's ability to attract and retain talented board members and senior employees in the Netherlands.

Any failure by NN to attract or retain qualified personnel could have a material adverse effect on its business, revenues, results of operations and financial condition.

NN is exposed to the risk of fraud and other misconduct or unauthorised activities by NN personnel, distributors, customers and other third parties. The occurrence of fraud and other misconduct and unauthorised activities could result in losses and harm NN's reputation, and may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is exposed to the risk of fraud and other misconduct or unauthorised activities by NN personnel, distributors, customers and other third parties. Fraud typically occurs when these persons deliberately abuse NN's procedures, systems, assets, products or services, and includes policy fraud (where fraudulent misstatements of fact are made in applications for insurance products by customers), sales fraud (where, for instance, intermediaries design commission schemes that are not for bona fide customers, or are written for non-existent customers, in order to collect commissions that are typically payable in the first year of the contract, after which the policy is allowed to lapse), claims fraud (where fraudulent misstatements of fact are made in an effort to make claims under existing policies), fraud in relation to payment execution (where payments of policy benefits are fraudulently routed to bank accounts other than those of the relevant beneficiary) and, in the case of NN Bank, forgery and other types of bank fraud. Misconduct and unauthorised activities also include, among others, acting beyond authority (where, for instance, mandated agents represent and bind NN in a way that exceeds their mandate), the taking of excessive or inappropriate risks, theft or misappropriation of NN and customer money and other assets, money laundering, sabotage, corporate espionage, arson and other negligent or intentional conduct. Although NN employs detection and prevention processes to help monitor and prevent fraud and other misconduct and unauthorised activities, these processes may be inadequate or otherwise ineffective. For example, although NN employs controls and procedures designed to monitor business decisions and to prevent the taking of excessive or inappropriate risks, relevant persons may take such risks regardless of such controls and procedures. NN's compensation policies and practices are reviewed as part of its overall risk management programme, but it is possible that such compensation policies and practices may not be sufficiently effective in preventing excessive or inappropriate risk taking. Operational risks arising from the conduct of third parties (including intermediaries, tied agents and other persons engaged by NN to sell and distribute its products and to provide other services to NN) are magnified because financial institutions are increasingly being held liable for the conduct of third parties, even where the financial institution has little or no control over their conduct.

The occurrence of fraud and other misconduct and unauthorised activities could result in losses, increased costs, violations of law, investigations and sanctions by regulatory and other supervisory authorities, claims by customers, customer groups and customer protection bodies, loss of potential and existing customers, loss of receivables and harm to NN's reputation, any of which, alone or in the aggregate, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

Interruption or other operational failures in telecommunication, IT and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data in those systems, including as a result of human error, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is highly dependent on automated and IT systems to adequately secure confidential and business information, and to maintain the confidentiality, integrity and availability of information and data.

NN could experience a failure of these systems, its employees could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or its employees could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, NN's IT systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. In this regard, NN has noted a generally increasing number of attempted electronic intrusions, some of which have recently resulted in severe disruptions of the IT systems of Dutch financial institutions, particularly Dutch banks, including NN Bank. NN may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond its control (such as natural disasters, acts of terrorism, epidemics, computer viruses and electrical or telecommunications outages). For example, failures of NN Bank's internet banking system or prolonged downtime of that system could harm its reputation and could result in saving deposit outflows. Furthermore, NN relies on third party suppliers to provide certain critical information technology and telecommunication services to NN and its customers. For instance, in the Netherlands a significant part of NN's IT infrastructure is provided by a third party supplier. The failure of any one of these systems, or the failure of a third party supplier to meet its obligations, for any reason, or errors made by NN's employees or the third party supplier, could in each case cause significant interruptions to NN's operations, harm NN's reputation, adversely affect its internal control over financial reporting, and have a material adverse effect on NN's business, results of operations, financial condition and prospects.

NN retains confidential information in its IT systems, and relies on industry standard commercial technologies to maintain the security of those systems. Anyone who is able to circumvent NN's security measures and penetrate its IT systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. In addition, the laws of an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of NN's IT systems that results in unauthorised disclosure or use of personally identifiable customer information could harm NN's reputation, deter purchases of its products, subject NN to heightened regulatory scrutiny or significant civil and criminal liability, and require that NN incur significant technical, legal and other expenses, each of which could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

NN is dependent in part on the continued performance, accuracy, compliance and security of third party service providers who provide certain critical operational support functions to NN. Inadequate performance by these service providers could result in reputational harm and increased costs, which could have a material adverse effect on NN's business, revenues, results of operations and prospects.

NN has outsourced certain critical operational support functions to third party service providers. For instance, in addition to third party suppliers who provide certain critical information technology and telecommunication services to NN and its customers (See "*—Interruption or other operational failures in telecommunication, IT and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data in those systems, including as a result of human error, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects*"), in the Netherlands NN has outsourced all of its claims handling for P&C products to a third party. NN is dependent in part on the continued performance, quality of customer service, accuracy, compliance and security of these service providers. If the contractual arrangements with any third party service providers are terminated, NN may not find an alternative provider of the services, on a timely basis, on equivalent terms or at all. Many of these service providers have access to confidential customer information, and any unauthorised disclosure or other mishandling of that confidential customer information could result in adverse publicity, reputational harm, deter purchases of NN products, subject NN to heightened regulatory scrutiny or significant civil and criminal liability, and require that NN incur significant legal and other expenses. Any of these events could have a material adverse effect on NN's business, revenues, results of operations and prospects.

NN's investment management business is complex and a failure to properly perform services could have a material adverse effect on NN's business, revenues, results of operations and prospects.

NN's investment management and related services include, among other things, portfolio management, investment advice, fund administration, shareholder services, transfer agency, underwriting, distribution, and fiduciary services. In order to be competitive, NN must properly perform its administrative and related responsibilities, including recordkeeping, accounting, valuation, corporate actions, compliance with investment guidelines and restrictions, daily net asset value computations, account reconciliations and required distributions to fund shareholders. Failures by NN to properly perform and monitor its investment management operations could lead to, among others, investments being made in breach of the mandates given by customers, poor investment decisions and poor asset allocation, the wrong investments being bought or sold or the incorrect monitoring of exposures as well as possible erosion of NN's reputation or liability to pay compensation, existing customers withdrawing funds and potential customers not granting investment mandates. Any such failure could have a material adverse effect on NN's business, revenues, results of operations and prospects.

FINANCIAL REPORTING RISKS

Changes in accounting standards or policies, or NN's financial metrics, including as a result of choices made by NN, could adversely impact NN's reported results of operations and its reported financial condition.

NN's consolidated financial statements are subject to the application of IFRS, which is periodically revised or expanded. Accordingly, from time to time NN is required to adopt new or revised accounting standards issued by recognised authoritative bodies, including the International Accounting Standards Board (**IASB**). It is possible that future accounting standards which NN is required to adopt, could change the current accounting treatment that applies to its consolidated financial statements and that such changes could have a material adverse effect on NN's results of operations and financial condition.

In June 2013, the IASB issued an Exposure Draft on Phase II of accounting of Insurance Contracts. This contemplated accounting change is planned to become effective in 2018 and will result in significant changes to NN's consolidated financial statements. NN may also choose to change the calculation methods, definitions, presentation or other elements of its reported financial metrics, or make other choices permitted under IFRS regarding the presentation of its reported results of operations and reported financial condition. This may include a choice to further align its IFRS accounting policies with regulatory accounting requirements (which are different in certain respects) to prevent accounting volatility when hedging regulatory capital. Further changes in accounting standards or policies, or NN's financial metrics, including as a result of choices made by NN, could have a material adverse effect on NN's reported results of operations and its reported financial condition.

NN's technical reserves reflected in its IFRS financial statements to pay insurance and other claims, now and in the future, could prove inadequate, which could require that NN strengthen its reserves, which may have a material adverse effect on NN's results of operations and financial condition.

NN determines the amount of the technical reserves using actuarial methods and statistical models. For NN's life insurance business, the reserving assumptions for technical reserves are locked-in when the policy is issued, save for the variable annuity business where regular updates are made. The reserving assumptions for the non-life insurance business are periodically updated for recent experience, information and insights into claims developments, which creates volatility in results of operations. Insurance companies are required under IFRS 4 to test the adequacy of their reserves at each IFRS reporting date by executing the reserve adequacy test. NN applies the IFRS reserve adequacy test in accordance with ING accounting principles, which require reserves to be adequate on aggregate for NN at a prudent level (90% confidence level) and for each individual segment at a best estimate level (50% confidence level). There are differences in the manner, methodology, models and assumptions used by insurance companies in calculating the reserve adequacy test. The reserve adequacy test applied by NN is based on management best estimates on future developments of markets and insurance claims. At the date of this Prospectus, the aggregate reserves are adequate at the 90% confidence level. There can be no assurance that the reserves will remain adequate in the future and that no additional charges to the income statement will be necessary. Furthermore, one or more of the assumptions underlying the reserve adequacy test of NN could prove to be incorrect and management may change one or more of the assumptions affecting the outcome of the reserve adequacy test, which in each case may make it necessary for NN to set aside additional reserves.

Under its current policy, if the reserve adequacy test shows that current technical reserves are not adequate in aggregate for NN at a prudent level (90% confidence level) or if technical reserves are not adequate for an individual segment at a best estimate level (50% confidence level), NN must strengthen its technical reserves in order to reach the respective adequacy levels.

In addition to its technical reserves for insurance liabilities, NN's IFRS reserves include provisions for other claims. For example, NN's IFRS reserves include a provision in relation to potential claims in relation to two UK based insurance subsidiaries of the Issuer. The Orion Insurance Company PLC (**Orion**, which has subsequently been renamed OIC Run-Off Limited) and its subsidiary, The London and Overseas Insurance Company PLC (**L&O**, which has subsequently been renamed London and Overseas Insurance Company Limited) ceased all underwriting in 1992. Provisional Liquidators for Orion and L&O were appointed in 1994, and a scheme of arrangement became effective in 1997 (the **Original Scheme of Arrangement**). Since then, Orion and L&O have been managed by two independent (i.e. not affiliated to NN) joint scheme administrators. A scheme of arrangement under English law is an agreement between a company, in this case Orion and L&O, and its creditors (after approval by a majority of creditors representing at least three quarters in value, which is then sanctioned by an English court, and registration thereof by the registrar of companies at the Companies House), and is binding on all creditors. As a part of the Original Scheme of Arrangement, ING Verzekeringen N.V. (which has legally merged into the Issuer) and Nationale-Nederlanden Internationale Schadeverzekering S.E., a subsidiary of the Issuer, issued a parent guarantee in favour of certain policyholders of Orion and L&O who had obtained part of their policies through the Institute of London Underwriters (the **ILU** and **qualifying ILU policyholders**, respectively).

An amendment to the Original Scheme of Arrangement (the **Revised Scheme of Arrangement**) has been prepared by the joint scheme administrators in consultation with NN and certain other stakeholders such as the ILU. NN and the joint scheme administrators expect that this Revised Scheme of Arrangement will be approved by creditors and become effective as it would accelerate the run-off of the Orion and L&O estates, resulting in substantially lower run-off costs and therefore earlier and higher pay-outs to creditors.

The Issuer's consolidated financial information includes a provision reflecting the expected potential net expenditure in respect of the qualifying ILU policyholders under the parent guarantee. This provision is determined inter alia on the basis of the expectation of the joint scheme administrators and NN that the Revised Scheme of Arrangement will become effective. If, contrary to the expectations of the joint scheme administrators and NN, the Revised Scheme of Arrangement were to not become effective, the current provision reflected in NN's IFRS financial statements may have to be increased, resulting in a charge to the Issuer's consolidated income statement.

If NN's technical or other reserves prove inadequate, NN may be required to strengthen its reserves, which may have a material adverse effect on NN's results of operations and financial condition.

Defects and errors in NN's processes, systems and reporting may cause internal and external miscommunication (including incorrect public disclosure), wrong decisions and wrong reporting to customers. Should they occur, such events could harm NN's reputation and could have a material adverse effect on NN's business, revenues, results of operations and financial condition.

Defects and errors in NN's financial processes, systems and reporting, including both human and technical errors, could result in a late delivery of internal and external reports, or reports with insufficient or inaccurate information. In NN's current financial reporting business units and legal entities do not always coincide. This increases the complexity of the financial reporting process, both within the business units and legal entities, and at the Issuer level, which in turn increases the risk of financial reporting errors. Moreover, in recent years the frequency, quality, volume, and complexity of the type of financial information that must be processed by NN's financial reporting systems has increased, in part due to more onerous regulatory requirements. For instance, new reporting metrics (such as market consistent embedded values and economic capital) are significantly more complex than the financial information NN's financial reporting systems processed in the past, and require a higher level of skill by NN's personnel.

Defects and errors in NN's financial processes, systems and reporting could lead to wrong decisions in respect of, for instance, product pricing and hedge decisions which could materially adversely affect its results of operations. In addition, misinforming customers and investors could lead to substantial claims and regulatory fines, increased regulatory scrutiny, reputational harm and increased administrative costs to remedy errors. In the event any such defects and errors occur, this could harm NN's reputation and could materially adversely affect NN's business, revenues, results of operations and financial condition.

RISKS RELATED TO THE SEPARATION FROM, AND CONTINUING RELATIONSHIP WITH, ING

After completion of the envisaged Share Offering, ING Groep will continue to own a significant number of Ordinary Shares, and will continue to be subject to various restrictions, limitations and undertakings under the EC Restructuring Plan. NN cannot accurately predict whether any such restrictions and limitations will have a negative effect on its business or financial flexibility, or result in conflicts between the interests of ING Groep and the interests of NN.

Currently, ING Groep N.V. (**ING Groep**) is the sole shareholder and parent company of the Issuer. It is envisaged that in 2014 ING Groep will divest ordinary shares in the Issuer (**Ordinary Shares** and the **Share Offering**, respectively). After completion of the Share Offering, ING Groep is expected to continue to own a significant number of the Ordinary Shares. Circumstances affecting ING Groep may have an impact on NN, and NN cannot be certain as to how further changes in circumstances affecting ING Groep may impact it.

In 2009, ING Groep was required to develop and submit a restructuring plan to the EC as a condition to receiving approval from the EC for the Dutch State aid it received in 2008/2009. On 26 October 2009, ING Groep announced its **2009 Restructuring Plan**, pursuant to which ING Groep is inter alia required to divest its insurance and investment management businesses, including the Issuer and its subsidiaries. On 18 November 2009, the 2009 Restructuring Plan received formal EC approval. On 25 November 2009, the divestment of all insurance and investment management businesses was approved by ING Groep's shareholders.

On 24 July 2012, ING Groep announced that the Dutch State and ING Groep were in dialogue with the EC on certain amendments to the 2009 Restructuring Plan, which were set out in the **2012 Restructuring Plan**. On 16 November 2012, the 2012 Restructuring Plan was formally approved by the EC. The 2012 Restructuring Plan extended the time horizon, increased the flexibility for the completion of divestments and adjusted other commitments as set forth in the 2009 Restructuring Plan in light of market conditions, economic climate and more stringent regulation.

On 6 November 2013, ING Groep announced that, together with the Dutch State, it had reached an agreement with the EC on certain amendments to the 2012 Restructuring Plan, which were set out in the **2013 Restructuring Plan**. The 2013 Restructuring Plan accelerated the divestment timeline for NN by two years, as a result of which ING Groep is required to divest more than 50% of its shareholding in the Issuer before 31 December 2015 and the remaining interest before 31 December 2016. Pursuant to the 2013 Restructuring Plan, the Japan Life and Japan Closed Block VA businesses are permitted to be divested in line with the divestment timeline for NN and are thus permitted to remain part of NN. The requirement for ING Groep to divest more than 50% of its interest in the Issuer includes the requirement to: (a) no longer have a majority of representatives on the management board of the Issuer (the **Management Board**), and (b) deconsolidate the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules.

In addition to the divestment requirements, the **EC Restructuring Plan** (being the 2009 Restructuring Plan, together with the 2012 Restructuring Plan and the 2013 Restructuring Plan) places certain conditions and restrictions on ING's (including NN's) business and operations. These conditions and restrictions include a ban on certain acquisitions as well as a requirement for ING Groep to fulfil certain commitments, including repaying the state aid received from the Dutch State.

In operating the business, NN has to abide by the requirements of the EC Restructuring Plan, and may also be subject to requirements included in any future decisions, guidance or interpretation of the EC that may be applicable to NN for so long as it is controlled by ING Groep and possibly for so long as ING Groep has a sufficient interest in the Issuer's share capital.

If ING Groep does not meet any NN Bank-related commitments, including commitments with respect to certain targets for mortgage production and consumer credit production (see "*Supervision and Regulation—EC Restructuring Plan—Specific conditions and restrictions regarding ING, NN and NN Bank*" and "*Supervision and Regulation—EC Restructuring Plan—NN Bank conditions and restrictions*"), before the date on which ING Groep has divested more than 50% of its interest in the Issuer or, if the EC so requires, before the end of 2015, or if ING Groep does not (timely) divest NN as agreed with the EC, or in case of other material non-compliance with the EC Restructuring Plan, the Dutch State will be obliged to re-notify the recapitalisation measure to the EC. In that event, the EC may require additional restructuring measures or take enforcement actions and/or, at the request of ING Groep and the Dutch State, may allow ING Groep more time to complete the divestment of NN or amend any NN Bank-related commitments.

The EC Restructuring Plan contains provisions and restrictions that could limit NN's business activities, including restricting NN's ability to make certain acquisitions or to conduct certain financing and investment activities. See "*Supervision and Regulation—EC Restructuring Plan*" for further information on the EC Restructuring Plan.

NN cannot predict whether any such restrictions and limitations will have a negative effect on its business and financial flexibility, or result in conflicts between the interests of ING and the interests of NN, nor can NN predict whether any further changes to the EC Restructuring Plan may be made, and whether any such changes would have any effect on NN's business. NN also cannot predict the possible effect of a failure by ING Groep to satisfy its commitments under the EC Restructuring Plan, including its NN Bank-related commitments and its commitment to divest NN, for instance by having a remaining ownership interest in the Issuer and its subsidiaries beyond any deadline agreed with the EC.

There remains uncertainty as to whether the Share Offering will occur at all, and if so when. ING Groep's divestment of the Issuer may take place by means of a sale to a single buyer or group of buyers. A sale to one or more third parties could result in a change to the strategy, management and risk profile of NN. There can be no assurance that the taking of any such actions would not adversely affect the ability of NN to effectively conduct its business or to satisfy its obligations under the Notes.

Under the EC Restructuring Plan, ING Groep is required to divest more than 50% of its shareholding in the Issuer before 31 December 2015 and the remaining interest before 31 December 2016. The obligation to divest more than 50% of its shareholding in the Issuer also requires that ING Groep (a) will no longer have a majority of representatives on the Management Board and (b) will have deconsolidated the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules. While ING Groep has announced that the base case for divesting the Issuer is an initial public offering of Ordinary Shares via the Share Offering, targeted for 2014, the Share Offering is subject to market conditions and DNB approval, and there remains uncertainty as to whether it will occur at all, and if so, when. Moreover, all options remain open and it is possible that ING Groep's divestment of the Issuer may take place by means of a sale to a single buyer or group of buyers. As such, there also remains uncertainty as to the identity of the eventual owners of the Issuer. Should the divestment occur by way of a sale of the Issuer to one or more third parties, this could result in a change to the strategy, management and risk profile of NN. There can be no assurance that the taking of any such actions would not adversely affect the Issuer's credit rating or the ability of NN to effectively conduct its business or to satisfy its obligations under the Notes. In addition, a change of ownership of the Issuer, or a member of NN (whether directly or indirectly) could result in key contracts being terminated by the counterparties to such contracts (including pursuant to existing termination rights of counterparties that are exercisable upon such a change in ownership), which could give rise to material disruptions to NN's business, additional costs to renegotiate those contracts, difficulties in managing its operations, and adverse impacts on NN's customers. As a result of these effects, the eventual change in ownership could have a material adverse effect on NN's business, revenues, results of operations, financial position and prospects.

Following termination of certain transitional arrangements with ING, NN will have to meet the relevant operational requirements independently. If NN is unable to do so, it may not be able to operate its business effectively or at comparable costs, and may incur losses, which may have a material adverse effect on NN's business, results of operations and financial condition.

In anticipation of the separation of NN from ING, as mandated by the EC, in 2009 NN commenced a project to achieve operational independence from ING by replicating the functions, systems and infrastructure it had obtained from ING in the past as a member of ING. Although this project was completed in 2012, pursuant to certain transitional arrangements ING (including, in particular, ING Bank) continues to perform or support certain IT, HR, finance and risk management services for NN. These transitional arrangements are not indefinite and will ultimately terminate. Following termination of the transitional arrangements, NN will have to meet the relevant operational requirements independently, either by replicating them internally or by obtaining appropriate services from third parties. If NN does not have adequate own systems and functions in place, or is unable to obtain them from third party service providers, it may not be able to operate its business effectively or at comparable costs, and may incur losses. In the past NN's business has benefited from the purchasing power of ING when procuring services, but as a stand-alone group NN may be unable to obtain those services at comparable prices or otherwise on terms as favourable to NN as those obtained when within ING. Each of the consequences set out above, should they occur, may have a material adverse effect on NN's business, results of operations and financial condition.

Because its separation from ING means that NN will no longer benefit from ING's strong brand and reputation, amongst other things, NN's ability to attract and retain customers and suitably qualified distributors may be negatively impacted, third parties may re-price, modify or terminate their relationships with NN, and NN may be forced to lower the prices of its products, which may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

On 2 October 2013, the intention to rebrand the Issuer and its subsidiaries to "NN" was announced. Prior to the rebranding, NN marketed a significant portion of its products and services using the "ING" brand name and logo. NN believes that the association with ING, and the use of ING's brand, provided it with preferred status among its customers, distributors and other persons due to ING's globally recognised brand, and the perception that ING provides high quality products and services and has a strong capital base and financial strength. The separation of NN from ING could change this perception and adversely affect NN's ability to attract and retain customers, which could result in reduced sales of its products. In addition, the separation of NN from ING may prompt some third parties to re-price, modify or terminate their distribution or other relationships with NN. NN's ability to maintain a competitive network of distributors for the sale and distribution of its products may also be negatively affected. See "*—Risks Related to the Business and Strategy—NN's primary distribution channel is its network of intermediaries, tied agents and bancassurance which sell and distribute its products. A failure by NN to maintain a competitive distribution network, or to attain a market share of new sales and distribution channels that is comparative to its market share of traditional channels, could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects*". NN may be required to lower the prices of its products, increase its sales commissions and fees, change long-term selling and marketing agreements and take other action to maintain its relationships with its customers and third party distributors. Should any of the consequences set out above occur, individually or in combination with others, they could have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects.

As a subsidiary of ING Groep, the Issuer and its subsidiaries have benefitted, and for so long as the Issuer and its subsidiaries qualify under the existing arrangements will continue to benefit, from certain contractual arrangements between ING and various third party vendors. NN may be unable to obtain these services through new, independent relationships with third party vendors, or may be unable to replace these services in a timely manner or on comparable terms.

As a subsidiary of ING Groep, the Issuer and its subsidiaries have benefitted, and for so long as the Issuer and its subsidiaries qualify under the existing arrangements will continue to benefit, from certain contractual arrangements between ING and various third party vendors. These contractual arrangements currently permit ING and its affiliates, including NN, to make use of certain software licences and related services provided thereunder (for example, the agreements that ING has with Microsoft, IBM and Oracle). There can be no assurance that once NN is no longer entitled to benefit from these arrangements (whether as a result of the Share Offering or a subsequent divestment of Ordinary Shares by ING Groep), NN will be able to obtain these services at the same levels, or obtain the same benefits through new, independent relationships with third party vendors. NN may not be able to replace these services and arrangements in a timely manner, or on terms and conditions, including as to cost, that are as favourable to NN as those previously received when it was a subsidiary of ING Groep.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH THE NOTES

Risks related to the particular structure of the Notes

Set out below is a brief description of certain risks relating to the particular structure of the Notes:

The Issuer's obligations under the Notes are subordinated.

The Notes and the Coupons rank *pari passu* and without any preference among themselves and constitute direct, unsecured and subordinated obligations of the Issuer. In the event of the insolvency (bankruptcy (*faillissement*) or moratorium (*surseance van betaling* or *noodregeling*, as applicable)), dissolution (*ontbinding*) or liquidation (*vereffening*) of the Issuer, the payment obligations of the Issuer under the Notes and the Coupons shall rank in right of payment after unsubordinated and unsecured creditors of the Issuer, but *pari passu* with all other subordinated obligations of the Issuer save for those preferred by mandatory provisions of law and those that rank or are expressed by their terms to rank junior to the Notes and the Coupons, and in priority to the claims of shareholders of the Issuer. Furthermore, by acceptance of the Notes and the Coupons, each Noteholder and Couponholder will be deemed to have waived any right of set-off or counterclaim that such Noteholder or Couponholder might otherwise have against the Issuer in respect of or arising under the Notes or Coupons, whether prior to or in insolvency, dissolution or liquidation of the Issuer. Therefore, although the Notes may pay a higher rate of interest than notes which are not subordinated, there is a greater risk that an investor in the Notes will lose all or some of his investment should the Issuer become insolvent or be dissolved or liquidated.

Under certain conditions, interest payments under the Notes must be deferred and in other instances interest payments under the Notes may be deferred at the option of the Issuer.

Payments of interest on the Notes will be mandatorily deferred on each Interest Payment Date in respect of which a Mandatory Deferral Event has occurred and is continuing. A Mandatory Deferral Event occurs if (a) the Solvency Condition is not met or (b) a Capital Adequacy Event has occurred and continues to exist and a deferral of interest and/or a suspension of payment of principal, as applicable, is required under the Capital Adequacy Regulations for the Notes to qualify for the purposes of determination of the solvency margin, capital adequacy ratio or comparable margins or ratios of the Issuer, or, where this is subdivided in tiers, as tier 2 basic own funds (howsoever described at the time), on a consolidated basis.

The Issuer may defer paying interest on each Optional Interest Payment Date until the Maturity Date or any earlier date on which the Notes are redeemed in full, subject to Condition 4(b). An Optional Interest Payment Date is any Interest Payment Date other than a Compulsory Interest Payment Date or a Mandatory Interest Deferral Date. Deferral of any payment of interest on an Optional Interest Payment Date or Mandatory Interest Deferral Date will not constitute a default by the Issuer and will not give the Noteholders any right to accelerate the Notes.

The Issuer is only required to pay interest on the Notes on any Compulsory Interest Payment Date, which is a date which is not a Mandatory Interest Deferral Date and on which the Solvency Condition is satisfied, and in respect of which during the immediately preceding six-month period a Compulsory Interest Payment Event has occurred.

Arrears of Interest shall bear interest (to the extent permitted by applicable law) at the applicable rate of interest from (and including) the date on which (but for such deferral) the deferred payment would otherwise have been due to be made to (but excluding) the relevant date on which the relevant deferred payment is in fact made. Any Arrears of Interest and any other amount, payment of which is deferred in accordance with Conditions 4(a)(i) or 4(a)(ii), may be paid in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Noteholders in accordance with Condition 11, provided that no Mandatory Deferral Event has occurred and is continuing and any notifications to the Regulator have been made or consent from the Regulator has been obtained, as the case may be, in either case if required under the Capital Adequacy Regulations. Arrears of Interest will become immediately due and payable in whole (and not in part) upon the earliest of the following dates:

(a) the date fixed for any redemption, purchase or substitution, or variation of the terms, of the Notes by or on behalf of the Issuer pursuant to Condition 5 or Condition 9; or

(b) the date on which an order is made or a resolution is passed for the liquidation of the Issuer (other than a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by an Extraordinary Resolution of the Noteholders and (ii) do not provide that the Notes shall thereby become payable); or

(c) the date on which a Compulsory Interest Payment Event occurs, provided that no Mandatory Deferral Event has occurred and is continuing,

in the case of paragraph (a) and (c) above, provided that any notifications to the Regulator have been made or consent from the Regulator has been obtained, as the case may be, in either case if required under the Capital Adequacy Regulations.

Any deferral of interest payments (or perceived risk thereof) will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Notes being applicable, the market price of the Notes may be more volatile than the market prices of other debt securities on which original issue discount and/or interest accrual exists that are not subject to such deferral provisions. The presence of the interest deferral provisions in the Notes may also result in the market price of the Notes being more sensitive to adverse changes in the Issuer's financial condition in general.

Payments made under some more junior or equally ranking instruments will not result in an obligation for the Issuer to make payments on the Notes.

The Issuer will only be obliged to pay interest and, subject to other conditions, Arrears of Interest upon the occurrence during the immediately preceding six-month period of a Compulsory Interest Payment Event, provided that no Mandatory Deferral Event has occurred and is continuing. A Compulsory Interest Payment Event means any declaration, payment or making of a dividend or other distribution by the Issuer to holders of any class of the Issuer's share capital and any repurchase by the Issuer of any class of the Issuer's share capital for cash (other than shares repurchased or otherwise acquired by the Issuer to reduce its capital (i) in the context of its own buy-back programmes, if any, (ii) under any equity derivative hedge structure or transaction, (iii) under any hedging of stock options programmes or any other compensation benefit programmes, if any, and (iv) in connection with financial restructurings, mergers, acquisitions, split-offs, divestments or like corporate transactions).

Therefore, payments on any instruments ranking *pari passu* with the Notes or more junior than the Notes, other than in some circumstances on the Issuer's share capital, will not result in an obligation for the Issuer to pay interest or Arrears of Interest on the Notes.

Potential investors in the Notes should therefore realise that holders of instruments ranking more junior than or *pari passu* with the Notes may receive payments from the Issuer in priority to the Noteholders, even though their claims rank junior to or *pari passu* with those of Noteholders. However, in the event of insolvency of the Issuer, the payment obligations of the Issuer under the Notes shall rank *pari passu* with all other subordinated obligations of the Issuer save for those preferred by mandatory provisions of law and those that rank or are expressed by their terms to rank junior to the Notes, and in priority to the claims of shareholders of the Issuer as more fully described above under "*—Risks related to the particular structure of the Notes—The Issuer's obligations under the Notes are subordinated*".

The Notes are long-term securities with limited events of default.

Unless previously redeemed or purchased and cancelled by the Issuer, the Issuer will only redeem the Notes on their Maturity Date, which falls in 2044, or even later, as further described in "*—Risks related to the particular structure of the Notes—Redemption of the Notes is subject to conditions*" below. The Issuer is under no obligation to redeem the Notes prior to that date and the Noteholders have no right to call for their redemption. Noteholders may only declare Notes due and repayable before the Maturity Date in the case of the liquidation of the Issuer. Liquidation may occur as a result of the winding-up of the Issuer (*ontbinding en vereffening*), bankruptcy (*faillissement*) of the Issuer or the emergency regulation (*noodregeling*) being applied to the Issuer if that constitutes a liquidation.

Therefore prospective investors should be aware that they should be prepared to bear the financial risks of an investment in the Notes until the Maturity Date or even for an extended period of time as further described in "*—Risks related to the particular structure of the Notes—Redemption of the Note is subject to conditions*" below.

Redemption of the Notes is subject to conditions.

Although the Notes are dated, so long as the Issuer is subject to Capital Adequacy Regulations, any redemption (including, without limitation, on the Maturity Date) may only be made provided no Mandatory Deferral Event has occurred and is continuing at the time of such redemption, and any redemption of the Notes is subject to the prior consent of the Regulator if required under the Capital Adequacy Regulations and subject to compliance with the Capital Adequacy Regulations. See Condition 5(h).

Therefore prospective investors should be aware that they may be required to bear the financial risks of an investment in the Notes for an extended period of time.

The Notes are subject to optional redemption by the Issuer.

The Notes are redeemable at the option of the Issuer (subject to prior consent of the Regulator if required under the Capital Adequacy Regulations) on each Interest Payment Date from the First Call Date and upon the occurrence of a Tax Event, a Capital Disqualification Event or a Rating Methodology Event, at their principal amount together with any Arrears of Interest and any further interest accrued to (but excluding) the date of redemption in accordance with the Terms and Conditions. See also "*—Risks related to the market generally—Reinvestment risk* ".

A Tax Event will occur if the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any Tax Law Change or if as a result of a Tax Law Change there is more than an insubstantial risk that the Issuer will not obtain full or substantially full deductibility for the purposes of Dutch corporation tax for any payment of interest, and the foregoing cannot be avoided by the Issuer taking reasonable measures not prejudicial to the interests of the Noteholders available to it.

A Capital Disqualification Event will occur if, as a result of any replacement of or change to the Capital Adequacy Regulations (or change to the interpretation thereof by any court, the Regulator or any other authority entitled to do so), the Notes cease to be capable of counting for 100% of the principal amount of the Notes outstanding at such time or, in the circumstances where such capability derives only from transitional or grandfathering provisions under the Solvency II Directive, less than 100% of the principal amount of the Notes outstanding at such time are capable of counting for the regulatory capital resources of the Issuer. As discussed in greater detail in the risk factor "*—Regulatory and Litigation Risks—The EU is adopting a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II'. The EC is currently in the process of amending Solvency II and preparing level 2 and 3 implementation measures. The full impact and timing of implementation of Solvency II is uncertain*" and the section of this Prospectus entitled "*Supervision and Regulation*", the EU is introducing a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies and insurance groups known as Solvency II which, amongst other things, will set out features which any instrument (including subordinated notes) must have in order to qualify as regulatory capital. These features may be different and/or more onerous than those currently applicable to insurance companies in the Netherlands and contained in the Notes. The details of these features remain subject to change until the publication, in final form, of the Solvency II level 2 implementing measures. The Solvency II Directive is expected to apply to insurers with effect from 2016. Accordingly, there is a risk that, after the issue of the Notes, a Capital Disqualification Event may occur which would entitle the Issuer, with the consent of the Regulator if then required by the Capital Adequacy Regulations, to redeem the Notes early or to substitute the Notes or to vary their terms as set out hereafter.

A Rating Methodology Event will occur upon a change in the methodology of a Rating Agency (or in the interpretation of such methodology) as a result of which the equity content previously assigned by such Rating Agency to the Notes is, as notified by such Rating Agency to the Issuer or as published by the Rating Agency, materially reduced when compared with the equity content assigned by such Rating Agency on or around the Issue Date.

Substitution or variation of the Notes without Noteholder consent.

Upon the occurrence of a Tax Event, a Capital Disqualification Event or a Rating Methodology Event, the Issuer may, at its option and without consent or approval of the Noteholders, elect to substitute the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Securities, as provided in Condition 5(f). In the case of a substitution or variation of the terms of the Notes, whilst the substituted or modified Notes must have terms which are not materially less favourable to an investor than the terms of the original Notes then prevailing, there can be no assurance that, due to the particular circumstances of each Noteholder, such substituted or modified Notes will be as favourable to each Noteholder in all respects.

No limitation on issuing debt.

There is no restriction on the amount of debt which the Issuer may issue which ranks senior to the Notes or on the amount of securities that the Issuer may issue which ranks *pari passu* with the Notes. The issue of any such debt or securities may reduce the amount recoverable by Noteholders on a winding-up (*faillissement* or *vereffening na ontbinding*) of the Issuer and may increase the likelihood of a deferral of payments under the Notes.

Solvency II Directive – Risk of adverse impact on Issuer's regulatory solvency condition.

The Notes are expected to qualify as additional solvency margin for capital adequacy regulatory purposes pursuant to the Dutch Financial Supervision Act. The capital adequacy requirements for insurance companies are currently under a fundamental review. As more fully explained in *Supervision and Regulation – EU Regulatory Framework – Solvency II Directive*, Solvency II is new capital adequacy regime for insurance companies. It is currently expected that the Solvency II Directive will be implemented in the Dutch Financial Supervision Act on 31 January 2015 and apply to insurers by 1 January 2016. The level 2 implementing measures, however, are still to be finalised and remain subject to change at this stage. The content of the level 2 implementing measures may differ from what is currently expected and therefore could, when finalised, have an adverse effect on the Notes and as a consequence of which any such implementing measure could adversely affect the interests of the Noteholders. In particular, the implementing measures could result in a higher overall valuation of liabilities or capital requirement, or a lower overall recognition of own funds than is currently expected and could therefore result in the occurrence of a Capital Adequacy Event following which a Mandatory Deferral Event would occur and then no principal, premium, interest or any other amount would be due and payable in respect of or arising from the Notes.

The Issuer is a holding company with no operations and relies on its operating subsidiaries to provide it with dividend payments and other funds to meet its financial obligations and to pay out dividends.

The Issuer is a holding company with no material, direct business operations. The principal assets of the Issuer are the equity interests it directly or indirectly holds in its operating subsidiaries. As a result, the Issuer is dependent on loans, dividends and other payments from its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of dividends and payment of principal and interest on the Notes. The ability of the Issuer's subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory, legal, regulatory or contractual limitations (including pursuant to the TSC. See "*—Regulatory and Litigation Risks—The impact on NN of recent and ongoing financial regulatory reform initiatives is uncertain—Theoretical Solvency Criterion Regulation (also known as Solvency 1.5)*").

As an equity investor in its subsidiaries, the Issuer's right to receive assets upon their liquidation or reorganisation will be effectively subordinated to the claims of creditors of its subsidiaries. To the extent that the Issuer is recognised as a creditor of such subsidiaries, the Issuer's claims may still be subordinated to any security interest in, or other lien on, their assets and to any of their debt or other obligations that are senior to the Issuer's claims.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Fiscal Agency Agreement contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

On 24 March 2014, the EC adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the Directive to include certain additional types of income, and widen the range of recipients of payments covered by the Directive, to include certain other types of entities and legal arrangements. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

U.S. Foreign Account Tax Compliance Withholding

As discussed above under "—*Regulatory and Litigation Risks*", FATCA imposes a new reporting and withholding regime. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the clearing systems, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation—Foreign Account Tax Compliance Act*".

Change of law

The Terms and Conditions are based on Dutch law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Dutch law or administrative practice after the date of this Prospectus.

Dealings in the Notes may become subject to a Financial Transactions Tax

In February 2013, the EC published a proposed directive for a common financial transaction tax to be implemented in 11 participating Member States, being Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain, which would together constitute the "FTT-Zone". As at the date of this Prospectus, it has not been proposed that the Netherlands become a participating Member State. Under the proposed directive, the FTT would have a broad scope and could, *inter alia*, levy a tax on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is located in the "FTT-Zone". As such, the FTT could levy a tax on certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. As of the date of this Prospectus, it is unclear when the FTT will come into force, if at all, and unclear what the content of the FTT would be. If the FTT were to come into force, there is a risk that dealings in the Notes may be subject to the FTT if at least one of the transacting parties is a qualifying financial institution, or if the Netherlands were to become a participating Member State.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Notes are represented by the Global Notes deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Notes, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Notes held through it. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by the Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Notes must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Integral multiples of less than EUR 100,000

The denomination of the Notes is EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000. Therefore, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 that are not integral multiples of EUR 100,000. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than EUR 100,000 will not receive a definitive Note in respect of such holding (should definitive Notes be issued) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more denominations.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including interest rate risk, reinvestment risk, liquidity risk, exchange rate risk and credit risk:

Interest rate risk during the Fixed Rate Period

From the Issue Date, the Notes will bear a fixed rate of interest of 4.625% per annum up to (but excluding) the First Call Date. As the rate of interest is fixed during this period there is a risk that changes in market interest rates during this period may adversely affect the value of the Notes.

The Notes will bear a floating interest rate as of the First Call Date

The Notes will bear a floating rate of interest of Euribor for three-month deposits in euro plus a margin of 3.95% per annum as of the First Call Date. As the rate of Euribor for three-month deposits in euro which will be applicable at that time is not known to the Issuer at the date of this Prospectus, the Floating Rate of Interest applicable to the Notes following the First Call Date may be lower than the prevailing Fixed Rate of Interest prior to the First Call Date. As a consequence, there is a risk that the interest rate in respect of the Notes following the First Call Date may be less favourable than the prevailing interest rate in respect of the Notes prior to the First Call Date. Also, the spread may be less favourable than the spreads on comparable floating rate instruments tied to the same reference rate at the time.

Reinvestment risk

The Notes are redeemable at the option of the Issuer on each Interest Payment Date from and including the First Call Date and upon the occurrence of a Tax Event, a Capital Disqualification Event and a Rating Methodology Event. At the time of any such redemption by the Issuer, prevailing interest rates may be lower than the rate borne by the Notes. If that is the case, a Noteholder may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. In addition, the Issuer's ability to redeem the Notes at its option is likely to affect the market value of the Notes. In particular, during any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the redemption price because of the optional redemption feature. This may also be true prior to any redemption period. Potential investors should consider reinvestment risk in light of other investments available at that time.

The secondary market generally

The Notes will have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Notes are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies structured to meet the investment requirements of limited categories of investors. As such, the Notes generally will have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the principal payable on the Notes, and (c) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks

Each of Standard & Poor's and Moody's is expected to assign a credit rating of BBB- and Baa3, respectively, to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Notes are legal investments for it, (b) the Notes can be used as collateral for various types of borrowing, and (c) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

2. OVERVIEW OF PRINCIPAL FEATURES OF THE NOTES

The following overview refers to certain provisions of the Terms and Conditions and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in the Terms and Conditions have the same meaning when used in this overview. References to numbered Conditions are to the Terms and Conditions as set out under "*Terms and Conditions of the Notes*".

Issuer	NN Group N.V.
Issue	€1,000,000,000 Fixed to Floating Rate Subordinated Notes due 2044.
Issue Date	8 April 2014.
Maturity Date	8 April 2044, subject as set out below under Redemption at Maturity.
First Call Date	8 April 2024.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under "*Risk Factors*".
Status and Subordination	The Notes rank *pari passu* without any preference among themselves and constitute direct, unsecured and subordinated obligations of the Issuer, as further described in Condition 2.
Interest	From the Issue Date up to the First Call Date, the Notes bear a fixed rate of interest of 4.625% per annum, payable annually in arrear on 8 April in each year. If on the First Call Date the Notes have not been redeemed in full, the Notes will bear a floating rate of interest of Euribor for three-month deposits in euro plus a margin of 3.95% per annum payable quarterly in arrear on 8 July, 8 October, 8 January and 8 April in each year.
Deferral of Interest	The Issuer may, in respect of any Optional Interest Payment Date, elect to defer payment of all (but not some only) of the interest accrued to that date and the Issuer shall not have any obligation to make such payment on that date. Subject to Condition 4(b), such deferral may continue until the Maturity Date or any earlier date on which the Notes are redeemed in full. In addition, payments of interest on the Notes will be mandatorily deferred on each Mandatory Interest Deferral Date and the Issuer shall not have any obligation to make such payment on that date. A **Mandatory Interest Deferral Date** means each Interest Payment Date in respect of which a Mandatory Deferral Event has occurred and is continuing. A **Mandatory Deferral Event** means: (a) the Solvency Condition is not met; or (b) a Capital Adequacy Event has occurred and continues to exist and a deferral of interest and/or a suspension of payment of principal, as applicable, is required under the Capital Adequacy Regulations for the Notes to qualify for the purposes of determination of the solvency margin, capital adequacy ratio or comparable margins or ratios of the Issuer, or, where this is subdivided in tiers, as tier 2 basic own funds (howsoever described at the time), on a consolidated basis.

	Deferral of any payment of interest on an Optional Interest Payment Date or Mandatory Interest Deferral Date will not constitute a default by the Issuer and will not give the Noteholders any right to accelerate the Notes.
Arrears of Interest	Arrears of Interest, and any other amount, payment of which is optionally or mandatorily deferred may be paid in whole or in part at any time, provided that no Mandatory Deferral Event has occurred and is continuing and any notifications to the Regulator have been made or consent from the Regulator has been obtained, as the case may be, in either case if required under the Capital Adequacy Regulations. Arrears of Interest will bear interest and become immediately due and payable in whole (and not in part) upon the occurrence of certain events as described in Condition 4(b).
Redemption at Maturity	Unless the Notes are previously redeemed or purchased and cancelled in full, the Issuer will redeem the Notes at their principal amount, together with all Arrears of Interest and further interest accrued on the Maturity Date. So long as the Issuer is subject to Capital Adequacy Regulations, any redemption pursuant to Condition 5 may only be made provided no Mandatory Deferral Event has occurred and is continuing at the time of such redemption, and principal, premium, interest or any other amount shall only be due and payable in respect of or arising from the Notes, provided no Mandatory Deferral Event has occurred and is continuing and the Issuer could make such payment without a Mandatory Deferral Event occurring, except where Condition 2(b) applies, in which case the Noteholder shall have a subordinated claim as set out therein.
Optional Early Redemption	The Issuer has the option to redeem all of the Notes in full on 8 April 2024 and each Interest Payment Date thereafter at their principal amount outstanding, together with any accrued and unpaid interest and any Arrears of Interest, subject to and in accordance with Condition 5(b).
Early Redemption for Tax Event, Capital Disqualification Event or Rating Methodology Event	The Issuer may redeem the Notes, in whole, but not in part, at their principal amount together with any Arrears of Interest and any interest accrued to (but excluding) the date of redemption in the case of a Tax Event, a Capital Disqualification Event or, from 8 April 2019, a Rating Methodology Event, subject to and in accordance with Condition 5(c), 5(d) and 5(e), respectively.
Substitution for Tax Event, Capital Disqualification Event or Rating Methodology Event	In case of a Tax Event, a Capital Disqualification Event or a Rating Methodology Event, the Issuer may, in its sole discretion but subject to compliance with applicable Capital Adequacy Regulations, substitute the Notes in whole (but not in part) for Qualifying Securities as further described in Condition 5(f).
Purchase of Notes by the Issuer	The Issuer may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in the open market or otherwise at any price. Notes, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, so purchased by the Issuer may be held, resold or surrendered for cancellation.
Conditions to redemption, substitution, variation and purchase	Any redemption, substitution, variation or purchase of the Notes is subject to (a) the prior consent of the Regulator if required under the Capital Adequacy Regulations and (b) compliance with the Capital Adequacy Regulations.
Events of Default	The Notes may be declared immediately due and repayable at their principal amount, together with interest accrued to the date of repayment (including Arrears of Interest) in the

case of the liquidation of the Issuer. Liquidation may occur as a result of the winding-up of the Issuer (*ontbinding en vereffening*), bankruptcy (*faillissement*) of the Issuer or the emergency regulation (*noodregeling*) being applied to the Issuer if that constitutes a liquidation.

Meetings of Noteholders	Condition 12 contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.
Form	The Notes will initially be represented by a Temporary Global Note, without interest coupons, which will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Interests in the Temporary Global Note will be exchangeable for interests in a Permanent Global Note upon certification as to non-US beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances. See "*Summary of Provisions relating to the Notes while in Global Form*".
Denomination	The Notes will be issued in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000.
Listing	Euronext Amsterdam.
Ratings	The Notes are expected to be assigned on issue a rating of BBB- by Standard & Poor's and Baa3 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of a credit rating assigned to the Issuer may adversely affect the market price of the Notes.
Governing Law	The Fiscal Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Fiscal Agency Agreement, the Notes and the Coupons are governed by and shall be construed in accordance with the laws of the Netherlands.
Use of Proceeds	The net proceeds of the issue of the Notes will be applied by the Issuer for general corporate purposes, including repayment of existing indebtedness.
ISIN	XS1054522922.
Common code	105452292.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the EEA (including the Netherlands and the United Kingdom), Australia, Canada and Japan, see "*Purchase and Sale of the Notes*".

3. DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated in this Prospectus by reference and, as such, form part of this Prospectus:

- the articles of association (*statuten*) of the Issuer (the **Articles of Association**) (the official Dutch version and an English translation thereof), which have previously been published and have been filed with the AFM; and
- the audited consolidated financial statements of the Issuer's predecessor ING Verzekeringen N.V. for the financial year ended 31 December 2012 and the independent auditor's report dated 18 March 2013, included in ING Verzekeringen N.V.'s annual report on pages 18 to 157 and 167.

Copies of these documents can be obtained in electronic form from the Issuer's website (currently www.nn.eu) and, until ING Groep has divested more than 50% of its shareholding in the Issuer, from ING Groep's website (www.ing.com). Potential investors should only rely on the information that is provided in this Prospectus or incorporated by reference into this Prospectus. No other documents or information, including the contents of the Issuer's website (currently www.nn.eu) or of websites accessible from hyperlinks on that website, form part of, or are incorporated by reference into, this Prospectus.

4. IMPORTANT INFORMATION

Potential investors are expressly advised that an investment in the Notes entails certain risks and that they should therefore carefully review the entire content of this Prospectus. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio. Prospective investors should also consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical consolidated financial information

The consolidated financial information in this Prospectus as at and for the years ended 31 December 2013, 2012 and 2011 has been extracted from the 2013 Annual Accounts which have been prepared in accordance with IFRS and are audited by Ernst & Young Accountants LLP.

Discontinued operations

As at the end of 2010, the Issuer was a global insurance and investment management holding company, with major operations in Europe, the United States, Latin America, and Asia/Pacific. However, as part of the 2009 Restructuring Plan, ING Groep committed to divest all insurance and investment management activities. Hence, since 2010 a major transformation has occurred in the composition and size of NN due to the disposal of all material insurance and investment management operations in the United States, Latin America, and Asia/Pacific (excluding Japan). Most disposals of NN's subsidiaries operating outside Europe were completed in the years 2013, 2012 and 2011. See "*Business—Material Agreements—Acquisitions and disposals*".

Consolidated profit and loss account

Under IFRS, a subsidiary or group of subsidiaries which NN has planned to sell but still legally owns, may be presented as held for sale if certain conditions are met. If a disposal group that is classified as held for sale represents a major line of business or geographical area, the disposal group is classified as a discontinued operation. Once a (significant) subsidiary or group of subsidiaries has been sold or is classified as a discontinued operation, IFRS requires that the net result from the discontinued operations is presented separately in the parent company's profit and loss account for both the current year and for comparative years. Hence, the consolidated profit and loss account for NN's continuing businesses for the years ended 31 December 2012 and 2011 has been restated to make these years comparable with the profit and loss account for the year ended 31 December 2013.

Consolidated balance sheet

NN's consolidated balance sheet as at 31 December 2013, 2012 and 2011 is impacted by the held for sale classification of subsidiaries as well as by the disposal of subsidiaries by NN, which have occurred between those dates. Unlike the consolidated profit and loss account, under IFRS, NN is not allowed to restate its prior period balance sheets to reflect the disposition of current period assets and subsidiaries. For that reason, NN is providing, on a voluntary basis, in addition to the historical balance sheets for the years 2012 and 2011, reclassified consolidated balance sheets for the years 2012 and 2011, which are comparable to the consolidated balance sheet for the year 2013 (the **Reclassified Balance Sheets**).

In the Reclassified Balance Sheets as at 31 December 2012 and 2011, the assets and liabilities related to the entities that were divested in 2013 and 2012, as applicable, are presented as held for sale as at 31 December 2012 and 2011 under the lines "Assets held for sale" and "Liabilities held for sale", respectively.

Financial information presented in the Prospectus

Balance sheet information

Balance sheet information presented in "*Selected Financial Information*" and "*Business*" shows the actual historical balance sheet for the year ended 31 December 2013 and the Reclassified Balance Sheets as at 31 December 2012 and 2011 in order to be able to show three years of comparable information.

Operating result (before tax)

Operating result (before tax) as presented in "*Selected Financial Information*" and "*Business*" is a non-GAAP financial measure and not a measure of financial performance under IFRS. Because it is not determined in accordance with IFRS, the operating result as presented by NN may not be comparable to other similarly titled measures of performance of other (insurance) companies. The operating result of NN's ongoing business segments is reconciled to the result before tax from the IFRS profit and loss account in "*Selected Financial Information*".

Although NN believes that the disclosure of operating result (before tax) by segment improves the ability of investors to assess the operational performance of NN, there are certain limitations on the usefulness of this supplemental non-GAAP financial measure. For example, operating result does not include indirect returns (capital gains and revaluations) of assets that are marked-to-market through the profit and loss account, such as public and private equity as well as real estate. NN has significant investments in such assets and indirect returns (capital gains and revaluations) on these investments, apart from direct returns such as dividends and rental income, are usually a consideration to invest in these asset classes. Operating result (before tax) will still fluctuate due to one-off or seasonal items that are not directly related to financial market conditions although not distinct from the ordinary activities of NN. Examples are adjustments to provisions for policyholder benefits or claims, triggered by natural catastrophes (non-life insurance) or changes in actuarial assumptions such as surrender and mortality rates (life insurance).

Calculation of operating result

Operating result (before tax) is used by NN to evaluate the financial performance of the business segments of the ongoing operations. Each segment's operating result is calculated by adjusting the reported result before tax for the following items:

- ***Non-operating items***: related to (general account) investments that are held for risk of NN (net of policyholder profit-sharing):
  - *Capital gains/losses and impairments*: realised gains and losses as well as impairments on financial assets that are classified as available for sale. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds as well as loans quoted in active markets.
  - *Revaluations*: revaluations on assets marked-to-market through the profit and loss account. These investments include private equity (associates), real estate (property and associates), derivatives (i.e. interest rate swaps, foreign exchange hedges) unrelated to product hedging programmes and direct equity hedges.
  - *Market and other impacts*: these impacts mainly comprise the change in the provision for guarantees on separate account pension contracts (net of hedging) in the Netherlands, the equity related and other deferred acquisition costs unlocking for Japan Closed Block VA as well as the accounting volatility related to the reinsurance of minimum guaranteed benefits of Japan Closed Block VA.
- ***Result on divestments and discontinued operations***: result before tax related to divested operations, including the result from disposal groups classified as discontinued operations as well as the result from classification of disposal groups as discontinued operations.

- ***Special items before tax***: (material) items of income or expense that arise from events or transactions that are clearly distinct from the ordinary business activities of NN and therefore are not expected to recur frequently or regularly. This includes for instance restructuring expenses, goodwill impairments, results related to early retirement of debt and gains/losses from employee pension plan amendments or curtailments.

Allocated equity

NN evaluates the efficiency of the operational deployment of its shareholder's equity by calculating return on equity. The distribution of net assets over the business segments is impacted by accounting policies, including consolidation principles that are determined by legal rather than economic ownership. Therefore, NN calculates allocated equity per segment to determine the part of the Issuer's shareholder's equity that is economically deployed by the segments. Allocated equity as presented in "*Business*" is a non-GAAP financial measure that is not a measure under IFRS. Each segment's allocated equity is calculated as that segment's net assets, i.e. the balance of total assets and total liabilities under IFRS, adjusted for the following items:

- ***minority interests***: third party minority interests in fully consolidated subsidiaries of the Issuer are subtracted from the net assets of the relevant segment(s);
- ***investments in subsidiaries of the Issuer***: intercompany investments of the Issuer in the shareholder's equity of fully consolidated subsidiaries that are part of the segments are eliminated to avoid double counting;
- ***goodwill and other intangibles***: goodwill and other intangibles (excluding software and value of business acquired) that are accounted for centrally in the segment Other, are allocated (back) to the segment(s) where they were originated;
- ***proprietary investment companies (private equity and real estate)***: the net assets related to investments by the segments in jointly owned proprietary investment companies (i.e. Parcom Capital B.V. and Rei Investment 1 B.V.) are re-allocated to the segments on a proportional basis to reflect their economic ownership. In the financial accounting, these companies are fully consolidated by the operations of Netherlands Life, as NN Life is the majority owner of the investment companies.

Except for the elimination of the minority interests, the re-allocations of the segments' net assets have no impact on the total net assets of NN.

Market and industry data and exchange rates

All references in this Prospectus to market data and industry statistics are based on, amongst others, independent industry publications, public national statistical sources, reports by market research firms or other independent publications (each an **Independent Source**), such as AM Jaarboek, Assuralia, DNB, Dutch Association of Insurers, the European Central Bank (**ECB**), Moody's, Statistics Netherlands (**CBS**) and Swiss Re.

The Issuer has included information from Independent Sources for the years 2012, 2011 and 2010 (market data for 2013 is generally not yet available). However, in some cases, market data and other statistical information were not available for all of these years. Some data is based on assumptions and good faith estimates of the Issuer, which is derived in part from a review of internal surveys of the Issuer, as well as the Independent Sources. The Issuer cannot guarantee that a third party using different methods to assemble, analyse or compute this data would obtain or generate the same results.

The information in this Prospectus that has been sourced from the Independent Sources has been accurately reproduced. NN has not independently verified or audited this data or determined the reasonableness of assumption used by their compilers. As far as NN is aware and able to ascertain from the information published by the relevant Independent Sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Certain market and industry information in this Prospectus has been converted into euro at the exchange rates used by NN, as shown in the table below. Conversion has taken place at the exchange rates as at 31 December of the relevant year to which the respective market and industry information relates.

Such euro amounts, which may differ from the amounts calculated using the average exchange rates for the relevant period, are not necessarily indicative of the amounts of euro that could actually have been purchased upon exchange of the currencies at the dates indicated, and have been provided solely for the convenience of the reader.

Euro exchange rates against selected currencies

	as at 31 December			
	2013	**2012**	**2011**	**2010**
Currency	**Local currency per euro**			
Poland (PLN)	4.15287	4.08307	4.46812	3.95925
Turkey (TRY)	2.94649	2.35670	2.43644	2.06747
Czech Republic (CZK)	27.39970	25.10753	25.79167	25.08295
Romania (RON)	4.47456	4.44301	4.33969	4.28135
Hungary (HUF)	297.03212	292.60246	314.27710	277.74140
Bulgaria (BGN)	1.95583	1.95583	1.95583	1.95583
U.S. (USD)	1.37770	1.31895	1.29460	1.33790
Japan (JPY)	144.65850	113.63414	100.19557	108.74450

(source: ING Bank)

NN names

On 2 October 2013, the intention to rebrand the Issuer and its subsidiaries to "NN" was announced. However, prior to the operational and legal entity rebranding, which will only start after completion of the envisaged Share Offering, NN will continue to use the "ING" name, brand and logo for its marketing materials, operating materials and legal entity names. In this Prospectus, several of NN's subsidiaries and parts of its business are already described with the "NN" name, while in practice the (legal entity) name of the relevant subsidiary or part of the business still includes the "ING" name (for example NN Belgium, NN Japan and NN Re). The current (legal entity) names of NN's subsidiaries or parts of its business are set out in "Definitions".

Rounding adjustments and currency

Certain figures contained in this Prospectus, including financial information and market and industry data, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or row of a table contained in this Prospectus may not conform exactly to the total figure given for that column or row.

Unless otherwise indicated, financial information relating to NN is presented in euro. All references in this document to **euro**, **EUR** and **€** refer to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the EU, as amended.

FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation (a) changes in general economic conditions, in particular economic conditions in NN's core markets, (b) changes in performance of financial markets, including developing markets, (c) consequences of a potential (partial) break-up of the euro, (d) the implementation of the EC Restructuring Plan, (e) changes in the availability of, and costs associated with, sources of liquidity, as well as conditions in the credit markets generally, (f) the frequency and severity of insured loss events, (g) changes affecting mortality and morbidity levels and trends, (h) changes affecting persistency levels, (i) changes affecting interest rate levels, (j) changes affecting currency exchange rates, (k) changes in investor, customer and policyholder behaviour, (l) changes in general competitive factors, (m) changes in laws and regulations, (n) changes in the policies of governments and regulatory authorities, (o) conclusions with regard to accounting assumptions and methodologies, (p) adverse developments in legal and other proceedings, including proceedings related to Dutch unit-linked policies, (q) changes in ownership that could affect the future availability to NN of net operating loss, net capital and built-in loss carry forwards, (r) changes in credit and financial strength-ratings, (s) NN's ability to achieve projected operational synergies and (t) the other risks and uncertainties detailed in the section headed "*Risk Factors*". Any forward-looking statements made by or on behalf of NN speak only as of the date they are made, and NN assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. The Issuer urges investors to read "*Risk Factors*" and "*Industry Overview*" for a more complete discussion of the factors that could affect the Issuer's future performance and the industry in which the Issuer operates.

5. TERMS AND CONDITIONS OF THE NOTES

The following, subject to amendment, are the terms and conditions of the Notes substantially in the form in which they are endorsed on the definitive Notes. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions relating to the Notes while in Global Form" below. These terms and conditions are subject to the detailed provisions of the Fiscal Agency Agreement, for example, in respect of provisions in relation to meetings of Noteholders.

The issue of the €1,000,000,000 Fixed to Floating Rate Subordinated Notes due 2044 (the **Notes**) by the Issuer has been duly authorised by the Management Board.

The Notes are issued by the Issuer subject to, and with the benefit of, the terms and conditions (the **Conditions**) below and a Fiscal Agency Agreement dated 8 April 2014 (the **Fiscal Agency Agreement**, which expression shall be construed as a reference to that agreement as the same may be amended, supplemented and/or restated from time to time) and made between the Issuer and The Bank of New York Mellon as fiscal agent (the **Fiscal Agent**) and paying agent (the **Paying Agent**, and together with the Fiscal Agent, the **Agents**). The Fiscal Agency Agreement includes the form of the Notes and the coupons relating to them (the **Coupons**). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agent. The holders of the Notes (the **Noteholders**) and the holders of the Coupons (whether or not attached to the relevant Notes) (the **Couponholders**) are entitled to the benefit of, are bound by all the provisions of, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agent shall include any successor appointed under the Fiscal Agency Agreement.

These Conditions may only be amended if the Issuer has obtained the consent of the Regulator (as defined below) in writing and of the Noteholders and the Couponholders in accordance with the provisions for meetings of Noteholders scheduled to the Fiscal Agency Agreement.

1. Form, denomination and title

(a) *Form and denomination*

The Notes are in bearer form, serially numbered, in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000, each with Coupons attached on issue.

(b) *Title*

Title to the Notes and to the Coupons will pass by delivery.

(c) *Holder absolute owner*

The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. Status of the Notes

(a) The Notes and the Coupons rank *pari passu* and without any preference among themselves and constitute direct, unsecured and subordinated obligations of the Issuer.

(b) In the event of the insolvency (bankruptcy (*faillissement*) or moratorium (*surseance van betaling* or *noodregeling*, as applicable)), dissolution (*ontbinding*) or liquidation (*vereffening*) of the Issuer, the payment obligations of the Issuer under the Notes and the Coupons shall rank in right of payment after unsubordinated and unsecured creditors of the Issuer, but *pari passu* with all other subordinated obligations of the Issuer save for those preferred by mandatory provisions of law and those that rank or are expressed by their terms to rank junior to the Notes and Coupons, and in priority to the claims of shareholders of the Issuer.

(c) By acceptance of the Notes and Coupons, each Noteholder and Couponholder will be deemed to have waived any right of set-off or counterclaim that such Noteholder or Couponholder might otherwise have against the Issuer in respect of or arising under the Notes or Coupons, whether prior to or in the insolvency, dissolution or liquidation of the Issuer. Notwithstanding the preceding sentence, if any of the rights and claims of any Noteholder in respect of or arising under the Notes or Coupons are discharged by set-off, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, if applicable, the bankruptcy trustee (*curator*) of the Issuer and, until such time as payment is made, will hold a sum equal to such amount on behalf of the Issuer or, if applicable, the bankruptcy trustee in the Issuer's insolvency, dissolution or liquidation. Accordingly, such discharge will be deemed not to have taken place.

3. Interest

(a) The Notes bear interest from, and including, 8 April 2014 (the **Issue Date**) payable annually in arrear on 8 April in each year until and including 8 April 2024 (the **First Call Date**) (each a **Fixed Interest Payment Date**) and thereafter quarterly in arrear on 8 July, 8 October, 8 January and 8 April in each year, for the first time on 8 July 2024 (each a **Floating Interest Payment Date** and, together with each Fixed Interest Payment Date, an **Interest Payment Date**).

(b) The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of the principal in respect thereof is improperly withheld or refused. In such event, interest will continue to accrue (after as well as before any judgment) up to, but excluding, the date on which, upon further presentation, payment in full of the principal thereof and all other sums due in respect of the Notes (including accrued interest) is made or (if earlier) the seventh day after notice is duly given to the holder of such Note in accordance with Condition 11 that upon further presentation of such Note being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made.

(c) Where interest is to be calculated up to and including the First Call Date, in respect of a period which is shorter than an Interest Period (as defined below), the day-count fraction used will be the actual number of days in the relevant period, from (and including) the date from which interest begins to accrue to (but excluding) the date on which it falls due, divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last). Where interest is to be calculated after the First Call Date in respect of a period which is shorter than an Interest Period, this will be done on the basis of the actual number of days elapsed in the relevant period, divided by 360 days.

(d) The period beginning on the Issue Date and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an **Interest Period**. Interest Periods up to the First Call Date are called **Fixed Rate Interest Periods**, thereafter **Floating Rate Interest Periods**.

The rate of interest for each Fixed Rate Interest Period shall be 4.625% per annum (the **Fixed Rate of Interest**). Thereafter, the interest payable from time to time in respect of the Notes for each Floating Rate Interest Period will accrue at a rate (the **Floating Rate of Interest**) equal to the sum of the Euro Interbank Offered Rate (**Euribor**) for three-month deposits in euros rounded, if necessary, to the fifth decimal place (with 0.000005 being rounded upwards) plus a margin of 3.95% per annum.

(e) For the purpose of Condition 3(d) above Euribor will be determined as follows:

(i) The Fiscal Agent will obtain for each Floating Rate Interest Period the Euribor rate for three-month deposits in euros. The Fiscal Agent shall use the Euribor rate as determined and published jointly by the European Banking Federation and ACI – The Financial Market Association and which appears for information purposes on the Reuters Screen EURIBOR01 (or, if not available, any other display page on any screen service maintained by any registered information vendor for the display of the Euribor rate selected by the Fiscal Agent) as at or about 11.00 a.m. (Central European Time (**CET**)) on the day that is two Business Days prior to the first day of each Floating Rate Interest Period (each an **Interest Determination Date**).

(ii) If, on the relevant Interest Determination Date, such Euribor rate is not determined and published jointly by the European Banking Association and ACI – The Financial Market Association, or if it is not otherwise reasonably practicable to calculate the rate under (i) above, the Fiscal Agent will:

(A) request the principal eurozone office of each of four major banks in the eurozone interbank market (the **Reference Banks**) to provide a quotation for the rate at which three-month euro deposits are offered by it in the eurozone interbank market at approximately 11.00 a.m. (CET) on the relevant Interest Determination Date to prime banks in the eurozone interbank market in an amount that is representative for a single transaction at that time, and determine the arithmetic mean (rounded, if necessary, to the fifth decimal place with 0.000005 being rounded upwards) of such quotation as is provided; and

(B) if fewer than two such quotations are provided as requested, the Fiscal Agent will determine the arithmetic mean (rounded, if necessary, to the fifth decimal place with 0.000005 being rounded upwards) of the rates quoted by major banks, of which there shall be at least two in number, in the eurozone, selected by the Fiscal Agent, at approximately 11.00 a.m. (CET) on the relevant Interest Determination Date for three-month deposits to leading eurozone banks in an amount that is representative for a single transaction in that market at that time,

and Euribor for such Floating Rate Interest Period shall be the rate per annum equal to the euro interbank offered rate for euro deposits as determined in accordance with this paragraph (e), provided that if the Fiscal Agent is unable to determine Euribor in accordance with the above provisions in relation to any Floating Rate Interest Period, Euribor applicable to the relevant Notes during such Floating Rate Interest Period will be Euribor last determined in relation thereto.

(f) *Determination of Floating Rates of Interest and Calculation of Interest Amounts*

The Fiscal Agent will, as soon as practicable after 11.00 a.m. (CET) on each Interest Determination Date, determine the Floating Rate of Interest for the Notes and calculate the amount of interest payable on the Notes for the following Floating Rate Interest Period (the **Interest Amount**) by applying the relevant Floating Rate of Interest to the principal amount of the Notes on the first day of such Floating Rate Interest Period and multiplying such product by the actual number of days in the Floating Rate Interest Period concerned, divided by 360. The determination of the Floating Rate of Interest and of each Interest Amount by the Fiscal Agent shall (in the absence of manifest error) be final and binding on all parties.

(g) *Notification of Floating Rates of Interest and Interest Amounts*

The Fiscal Agent will cause the relevant Floating Rate of Interest and the relevant Interest Amounts to be notified to the Issuer, the Fiscal Agent and to the Noteholders and Couponholders. As long as the Notes are admitted to listing, trading and/or quotation on NYSE Euronext in Amsterdam or by any other competent authority, stock exchange and/or quotation system, notice shall also be published in such other place as may be required by the rules and regulations of such competent authority, stock exchange and/or quotation system, as soon as possible after the determination.

4. Deferral of interest payments and Arrears of Interest

(a) *Deferral of interest payments*

(i) **Optional Deferral of Interest Payments**: The Issuer may elect in respect of any Optional Interest Payment Date by notice to the Noteholders pursuant to Condition 4(c) below, to defer payment of all (but not some only) of the interest accrued to that date and the Issuer shall not have any obligation to make such payment on that date.

Notwithstanding any other provision in these Conditions, the deferral of any payment of interest on an Optional Interest Payment Date in accordance with this Condition 4(a)(i) will not constitute a default by the Issuer and will not give the Noteholders any right to accelerate the Notes.

(ii) **Mandatory Deferral of Interest Payments**: In addition to the right of the Issuer to defer payment of interest in accordance with Condition 4(a)(i), payments of interest on the Notes will be mandatorily deferred on each Mandatory Interest Deferral Date and the Issuer shall not have any obligation to make such payment on that date. The Issuer shall notify the Noteholders of any Mandatory Interest Deferral Date in accordance with Condition 4(c).

Notwithstanding any other provision in these Conditions, the deferral of any payment of interest on a Mandatory Interest Deferral Date in accordance with this Condition 4(a)(ii) will not constitute a default by the Issuer and will not give the Noteholders any right to accelerate the Notes.

(b) *Arrears of Interest*

Any interest in respect of the Notes not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any earlier Interest Payment Date shall, so long as the same remains unpaid, constitute **Arrears of Interest**. Arrears of Interest shall bear interest (to the extent permitted by applicable law) at the applicable rate of interest from (and including) the date on which (but for such deferral) the deferred payment would otherwise have been due to be made to (but excluding) the relevant date on which the relevant deferred payment is in fact made.

Any Arrears of Interest and any other amount, payment of which is deferred in accordance with Conditions 4(a)(i) or 4(a)(ii), may be paid in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Noteholders in accordance with Condition 11, provided that the following conditions are met:

(a) no Mandatory Deferral Event has occurred and is continuing; and

(b) any notifications to the Regulator have been made or consent from the Regulator has been obtained, as the case may be, in either case if required under the Capital Adequacy Regulations.

Arrears of Interest will become immediately due and payable in whole (and not in part) upon the earliest of the following dates:

(i) the date fixed for any redemption, purchase or substitution, or variation of the terms, of the Notes by or on behalf of the Issuer pursuant to Condition 5 or Condition 9; or

(ii) the date on which an order is made or a resolution is passed for the liquidation of the Issuer (other than a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (A) have previously been approved in writing by an Extraordinary Resolution of the Noteholders and (B) do not provide that the Notes shall thereby become payable); or

(iii) the date on which a Compulsory Interest Payment Event occurs, provided that no Mandatory Deferral Event has occurred and is continuing,

in the case of paragraph (i) and (iii) above, provided that any notifications to the Regulator have been made or consent from the Regulator has been obtained, as the case may be, in either case if required under the Capital Adequacy Regulations.

Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest and any other amount in respect of or arising under the Notes, the Issuer shall be obliged to do so upon expiration of such notice, subject to no Mandatory Deferral Event having occurred and being continuing upon such expiration. Where Arrears of Interest are paid in part, each part payment shall be applied in payment of the Arrears of Interest accrued due in respect of the relative Interest Payment Date (or consecutive Interest Payment Dates) furthest from the date of payment.

(c) *Deferral Notice*

The Issuer shall notify the Fiscal Agent and, in accordance with Condition 11, the Noteholders as soon as practicable and in any event not less than 14 days prior to an Interest Payment Date:

(i) if that Interest Payment Date is an Optional Interest Payment Date in respect of which the Issuer elects to defer interest as provided in Condition 4(a)(i) above, and specifying the same; and

(ii) if that Interest Payment Date is a Mandatory Interest Deferral Date and specifying that interest will not be paid because a Mandatory Deferral Event has occurred and is continuing, provided that if a Mandatory Deferral Event occurs less than 14 days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral that is required pursuant to Condition 4(a)(ii) above in accordance with Condition 11 as soon as reasonably practicable following the occurrence of such event.

5. Redemption, Substitution, Variation and Purchase

(a) *Maturity Date*

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount, together with all Arrears of Interest and further interest accrued, on 8 April 2044 (the **Maturity Date**), subject to Condition 5(h). The Issuer undertakes that, if as a result of Condition 5(h), the Notes may not be redeemed on the Maturity Date, the Issuer will redeem the Notes as soon as practicable after Condition 5(h) has ceased to be an impediment to such redemption, and the Issuer will give notice to the Fiscal Agent and the Noteholders in accordance with Condition 11 stating the date fixed for redemption.

Except as provided under paragraph (b), (c), (d) or (e) of this Condition 5 or in the case of the occurrence of an Event of Default as provided in Condition 9, the Notes may not be redeemed before the Maturity Date.

(b) *Issuer call option*

The Issuer may, subject to Condition 5(h), on giving not less than 15 nor more than 30 days' notice to the Fiscal Agent and, in accordance with Condition 11, to the Noteholders (which notice shall be irrevocable, subject to such notice becoming void in accordance with Condition 5(h)), redeem, in accordance with this Condition, all, but not some only, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their principal amount together with any Arrears of Interest and any further interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 5, subject to Condition 5(h).

(c) *Redemption for taxation purposes*

If, prior to the giving of the notice referred to below, a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 5(h), having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable, subject to such notice becoming void in accordance with Condition 5(h)), redeem, in accordance with this Condition, all, but not some only, of the Notes at their principal amount together with any Arrears of Interest and any further interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

Prior to the publication of any notice of redemption pursuant to this Condition 5(c) the Issuer shall deliver to the Fiscal Agent a certificate signed by the Issuer, represented by at least one member of the Management Board, and an opinion from a recognised tax adviser of international standing, stating that a Tax Event has occurred and is continuing as at the date of the certificate or opinion.

(d) *Redemption for regulatory reasons*

If, prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 5(h), having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable, subject to such notice becoming void in accordance with Condition 5(h)), redeem, in accordance with this Condition, all, but not some only, of the Notes at their principal amount together with any Arrears of Interest and any further interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

Prior to the publication of any notice of redemption pursuant to this Condition 5(d) the Issuer shall deliver to the Fiscal Agent a certificate signed by the Issuer, represented by at least one member of the Management Board, stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate.

(e) *Redemption for rating reasons*

If, prior to the giving of the notice referred to below, the Issuer determines that a Rating Methodology Event has occurred and is continuing with respect to the Notes, then the Issuer may, subject to Condition 5(h), having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable, subject to such notice becoming void in accordance with Condition 5(h)), at any time on or after 8 April 2019, redeem, in accordance with this Condition, all, but not some only, of the Notes at their principal amount together with any Arrears of Interest and any further interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

Prior to the publication of any notice of redemption under this Condition 5(e) the Issuer shall deliver to the Fiscal Agent a certificate signed by the Issuer, represented by at least one member of the Management Board, stating that a Rating Methodology Event has occurred and is continuing as at the date of the certificate.

(f) *Substitution or variation*

If any of the events described in Condition 5(c), 5(d) or 5(e) has occurred and is continuing, then the Issuer may, subject to Condition 5(h), (without any requirement for the consent or approval of the Noteholders) and subject to having satisfied the Fiscal Agent immediately prior to the giving of such notice referred to herein that the provisions of this Condition 5(f) have been complied with and having given not less than seven days' written notice to the Fiscal Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable), at any time either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Securities. In connection therewith, all Arrears of Interest (if any) will be paid as required by Condition 4(b) and as further set out below in this Condition 5(f).

Upon the expiry of such notice, the Issuer shall either vary the terms of, or substitute, the Notes in accordance with this Condition 5(f), as the case may be.

As used herein, **Qualifying Securities** means securities:

(i) having terms (including terms providing for deferral of payment of interest and/or principal) that are not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an independent investment bank, consulting firm or comparable expert of international standing on the subject and provided that a certification to such effect of the Issuer, represented by at least one member of the Management Board, shall have been delivered to the Fiscal Agent prior to the issue of the relevant securities or them otherwise becoming obligations of the Issuer);

(ii) issued by or otherwise being obligations of the Issuer or another member of NN with a guarantee by the Issuer, such that investors have the same material rights and claims as under the Notes (as reasonably determined by the Issuer, and provided that a certification to such effect of the Issuer, represented by at least one member of the Management Board, shall have been delivered to the Fiscal Agent prior to the issue of the relevant securities or them otherwise becoming obligations of the Issuer);

(iii) ranking at least equal to the Notes, provided that in the insolvency (bankruptcy (*faillissement*) or moratorium (*surseance van betaling* or *noodregeling*, as applicable)), dissolution (*ontbinding*) or liquidation (*vereffening*) of the relevant issuer, the payment obligations of such issuer shall rank in right of payment after unsubordinated and unsecured creditors of such issuer, but pari passu with all other subordinated obligations of such issuer save for those preferred by mandatory provisions of law and those that rank or are expressed by their terms to rank junior to such securities, and in priority to the claims of shareholders of such issuer, and featuring the same principal amount, interest rate (including applicable margins and step-up), interest payment dates and optional redemption dates as the Notes;

(iv) containing terms which preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to the timing of, and amounts payable on, such redemption;

(v) which do not contain any terms providing for loss absorption through principal write-down or conversion to shares;

(vi) listed on a regulated market in the European Economic Area, if the Notes were listed prior to such substitution or variation; and

(vii) admitted to, and traded in, the same clearing system or clearing systems as the Notes were.

In addition, any substitution or variation is subject to (A) all interest amounts, including Arrears of Interest, and any other amount payable under the Notes which in each case has accrued to Noteholders and has not been paid, being satisfied in full on or prior to the date thereof, (B) compliance with Condition 5(h), (c) the substitution or variation not itself giving rise to a negative change in any published rating of the Notes in effect at such time as confirmed in writing by any rating organisations that have given such published rating of the Notes previously, (d) the substitution or variation not triggering the right on the part of the Issuer to redeem the Notes pursuant to Condition 5(c), 5(d) or 5(e), and (e) certification by the Issuer, represented by at least one member of the Management Board, that the securities in question are "Qualifying Securities" in accordance with the definition set out above and that the conditions set out above have been complied with, which certificate shall be delivered to the Fiscal Agent prior to the substitution or variation of the Notes and upon which certificate the Fiscal Agent shall be entitled to rely absolutely without liability to any person.

In connection with any substitution or variation as described above, the Issuer will comply with the rules of any stock exchange or other relevant authority on which the Notes are then listed or admitted to trading.

(g) *Purchases*

The Issuer may, subject to Condition 5(h), at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in the open market or otherwise at any price. Notes, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, so purchased by the Issuer may be held, resold or surrendered for cancellation.

(h) *Conditions to redemption, substitution, variation or purchase of Notes*

So long as the Issuer is subject to Capital Adequacy Regulations:

(i) any redemption pursuant to this Condition 5 may only be made provided no Mandatory Deferral Event has occurred and is continuing at the time of such redemption, and principal, premium, interest or any other amount shall only be due and payable in respect of or arising from the Notes provided no Mandatory Deferral Event has occurred and is continuing and the Issuer could make such payment without a Mandatory Deferral Event occurring, except where Condition 2(b) applies, in which case the holder shall have a subordinated claim as set out therein; and

(ii) any redemption, substitution, variation or purchase of the Notes is subject to (A) the prior consent of the Regulator if required under the Capital Adequacy Regulations and (B) compliance with the Capital Adequacy Regulations.

Should a Mandatory Deferral Event occur after a notice for redemption has been given to the Noteholders but prior to the date fixed for redemption, such redemption notice shall become void and notice thereof shall be given promptly by the Issuer to the Fiscal Agent and, in accordance with Condition 11, the Noteholders.

6. Payment

(a) Payments of interest and principal in respect of the Notes will be made at the specified office of the Paying Agent outside the United States by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System (as defined below).

If the due date for payment of any amount of principal or interest in respect of any Note is not a day on which the Trans-European Automated Real Time Gross-Settlement Express Transfer System 2 (the **TARGET System**) is operating (a **Business Day**), Noteholders shall not be entitled to payment of the amount due until the next following Business Day or to further interest or other payment in respect of such delay.

(b) Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office of the Paying Agent outside the United States.

(c) Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than five years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

(d) All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in any jurisdiction (whether by operation of law or agreement of the Issuer or its Agents) and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders in respect of such payments.

7. Taxation

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Netherlands or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In such event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders or Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or, as the case may be, Coupon:

(a) presented for payment by or on behalf of a Noteholder or Couponholder thereof who is liable to such taxes or duties in respect of such Note or Coupon by reason of such Noteholder or Couponholder having some connection with the Netherlands, other than the mere holding of such Note or Coupon or the receipt of the relevant payment in respect thereof; or

(b) presented for payment by or on behalf of a Noteholder or Couponholder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that a third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note or Coupon is presented for payment; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the Noteholder or Couponholder thereof would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of 30 days;

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to EU Council Directive 2003/48/EC on the taxation of savings income or any other EU Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) where such withholding or deduction is imposed on a payment pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

8. Prescription

Claims against the Issuer for payment of the Notes and the Coupons shall be prescribed and become void unless made within five years from the date on which the payment becomes due.

9. Events of Default

The holder of any Note may give written notice to the Issuer that such Note is, and such Note shall accordingly immediately become, due and repayable at its principal amount, together with interest accrued to the date of repayment (including Arrears of Interest) in the case of the liquidation of the Issuer (an **Event of Default**). Liquidation may occur as a result of the winding-up of the Issuer (*ontbinding en vereffening*), bankruptcy (*faillissement*) of the Issuer or the emergency regulation (*noodregeling*) being applied to the Issuer if that constitutes a liquidation.

10. Replacement of Notes or Coupons

Should a Note or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable law, at the specified office of the Issuer on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity and otherwise as the Issuer may reasonably require. All costs arising in connection therewith may be charged to the claimant. The mutilated or defaced Note or Coupon must be surrendered before replacements will be issued.

11. Notices

(a) Notices to Noteholders will be valid if published in the English language in a leading newspaper having general circulation in the Netherlands (which is expected to be *Het Financieele Dagblad*). The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are, for the time being, listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

(b) Any notice hereunder to the Issuer shall be given by sending the same by registered mail or by delivering the same by hand to the Fiscal Agent. Any notice sent by registered mail shall be deemed to have been given, made or served at the time of delivery.

Any such notice to the Issuer shall be delivered or despatched to the following address:

The Bank of New York Mellon
One Canada Square
London, E14 5AL
United Kingdom
Fax no: +44 (0) 20 7964 2536
Attention: Manager, Corporate Trust Services,

or such other address as the Issuer may notify to the Noteholders in accordance with this Condition 11.

12. Meetings of Noteholders and modification

(a) The Fiscal Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10 per cent in nominal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

(b) The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Fiscal Agency Agreement either (i) for the purpose of curing any ambiguity or which is of a formal, minor or technical nature or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Noteholders.

Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise in respect of any modification to the Fiscal Agency Agreement, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

13. Governing law

The Fiscal Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Fiscal Agency Agreement, the Notes and the Coupons are governed by and shall be construed in accordance with the laws of the Netherlands.

The courts of the Netherlands are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Fiscal Agency Agreement, the Notes and the Coupons, and accordingly any legal action or proceedings arising out of or in connection with the Fiscal Agency Agreement, the Notes and the Coupons may be brought in such courts.

14. Definitions

In these Conditions, unless the context requires otherwise, the following defined terms shall have the meanings set out below:

Assets means the non-consolidated gross assets of the Issuer as shown by the then latest published audited balance sheet of the Issuer, but adjusted for contingencies and for subsequent events in such manner and to such extent as one or more members of the Management Board, the auditors or, as the case may be, the liquidator may determine to be appropriate;

Capital Adequacy Event means that the consolidated solvency margin, capital adequacy ratio or comparable margins or ratios of the Issuer under the Capital Adequacy Regulations are, or as a result of a Payment would become, less than the relevant requirements as applied and enforced by the Regulator pursuant to the Capital Adequacy Regulations, as applicable to the Notes, which, following the implementation of the Solvency II Directive, includes the "group Solvency Capital Requirement" (as referred to in the Solvency II Directive) or any equivalent terminology employed by the then applicable Capital Adequacy Regulations;

Capital Adequacy Regulations means at any time the statutory regulations, requirements, guidelines, policies and decrees as applied and enforced by the Regulator with respect to the Issuer and with regard to the maintenance of the consolidated minimum levels of solvency margins and/or capital adequacy ratios and/or comparable margins or ratios (howsoever described at the time), as well as with regard to the supervision thereof by any Regulator, including any new regulations to which the Issuer will become subject ahead of or following the implementation of the Solvency II Directive;

A **Capital Disqualification Event** is deemed to have occurred if, as a result of any replacement of or change to the Capital Adequacy Regulations (or change to the interpretation thereof by any court, the Regulator or any other authority entitled to do so):

(a) the Notes cease to be capable of counting for 100% of the principal amount of the Notes outstanding at such time; or

(b) in the circumstances where such capability derives only from transitional or grandfathering provisions under the Solvency II Directive, less than 100% of the principal amount of the Notes outstanding at such time are capable of counting,

under the Capital Adequacy Regulations for the purposes of the determination of the solvency margin, capital adequacy ratio or comparable margins or ratios of the Issuer, or, where this is subdivided in tiers, as tier 2 basic own funds (howsoever described at the time), on a consolidated basis, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital other than a transitional or grandfathering provision as provided in (b) above;

Compulsory Interest Payment Date means any Interest Payment Date (a) in respect of which during the immediately preceding six-month period a Compulsory Interest Payment Event has occurred, (b) which is not a Mandatory Interest Deferral Date and (c) on which the Solvency Condition is satisfied;

Compulsory Interest Payment Event means:

(a) any declaration, payment or making of a dividend or other distribution by the Issuer to holders of any class of the Issuer's share capital;

(b) any repurchase by the Issuer of any class of the Issuer's share capital for cash (other than shares repurchased or otherwise acquired by the Issuer to reduce its capital (i) in the context of its own buy-back programmes, if any, (ii) under any equity derivative hedge structure or transaction, (iii) under any hedging of stock options programmes or any other compensation benefit programmes, if any, (iv) in connection with financial restructurings, mergers, acquisitions, split-offs, divestments or like corporate transactions);

Coupon Payment means, in respect of an Interest Payment Date, the aggregate coupon amounts for the Interest Period ending on such Interest Payment Date;

Extraordinary Resolution of Noteholders means a resolution of Noteholders duly passed by a majority of not less than three-fourths of the votes cast;

First Call Date has the meaning given thereto in Condition 3(a);

Liabilities means the non-consolidated gross liabilities of the Issuer as shown by the then latest published audited balance sheet of the Issuer, but adjusted for contingencies and for subsequent events in such manner and to such extent as one or more members of the Management Board, the auditors or, as the case may be, the liquidator may determine to be appropriate;

Mandatory Deferral Event means:

(a) the Solvency Condition is not met; or

(b) a Capital Adequacy Event has occurred and continues to exist and a deferral of interest and/or a suspension of payment of principal, as applicable, is required under the Capital Adequacy Regulations for the Notes to qualify for the purposes of determination of the solvency margin, capital adequacy ratio or comparable margins or ratios of the Issuer, or, where this is subdivided in tiers, as tier 2 basic own funds (howsoever described at the time), on a consolidated basis;

Mandatory Interest Deferral Date means each Interest Payment Date in respect of which a Mandatory Deferral Event has occurred and is continuing;

NN means the Issuer and its subsidiaries;

Optional Interest Payment Date means any Interest Payment Date other than a Compulsory Interest Payment Date or a Mandatory Interest Deferral Date;

Optional Redemption Date means the First Call Date and any Interest Payment Date thereafter;

Payment means any Coupon Payment or any Arrears of Interest or other accrued interest which is due and payable in respect of the Notes;

Rating Agency means Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. or any successor;

A **Rating Methodology Event** will be deemed to occur upon a change in the methodology of a Rating Agency (or in the interpretation of such methodology) as a result of which the equity content previously assigned by such Rating Agency to the Notes is, as notified by such Rating Agency to the Issuer or as published by the Rating Agency, materially reduced when compared with the equity content assigned by such Rating Agency on or around the Issue Date;

Regulator means any existing or future regulator having primary supervisory authority with respect to the Issuer; on the Issue Date, the Regulator is De Nederlandsche Bank N.V.;

Solvency II Directive means Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 and the implementing measures by the EC thereunder, as amended;

the **Solvency Condition** is not satisfied if the Issuer determines that it is not or, on the relevant date on which a payment would be made after taking into account amounts payable on that date on the Notes will not be, Solvent;

Solvent means that the Issuer is (a) able to pay its debts to its unsubordinated and unsecured creditors as they fall due, and (b) has Assets that exceed its Liabilities (other than its Liabilities to persons who are not unsubordinated and unsecured creditors); and

A **Tax Event** will be deemed to occur if:

(a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Netherlands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, including any such change as a consequence of case law, which change or amendment becomes effective on or after the Issue Date (a **Tax Law Change**); or

(b) as a result of a Tax Law Change, there is more than an insubstantial risk that the Issuer will not obtain full or substantially full deductibility for the purposes of Dutch corporation tax for any payment of interest,

and the foregoing cannot be avoided by the Issuer taking reasonable measures not prejudicial to the interests of the Noteholders available to it.

6. SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Global Notes which will apply to, and in some cases modify, the terms and conditions of the Notes while the Notes are represented by the Global Notes.

Exchange

The Notes will initially be issued in the form of a Temporary Global Note. On and after 18 May 2014 interests in such Temporary Global Note will be exchangeable (free of charge) for interests in a Permanent Global Note to the extent that certification generally to the effect that the beneficial owners of interests in the Temporary Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person as required by U.S. tax rules has been received by Euroclear and Clearstream, Luxembourg, and Euroclear and Clearstream, Luxembourg have given a like certification (based on the certifications it has received) to the Issuer.

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for duly authenticated and completed definitive Notes:

(a) if the Notes are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(b) if principal in respect of any Note is not paid when due; or

(c) with the consent of the Issuer.

The Issuer will promptly give notice to Noteholders if one of the events listed above occurs. The holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent, in the case of (c) above only if prior written consent from the Issuer has been obtained of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may surrender the Permanent Global Note to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Fiscal Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 30 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of an exchange pursuant to (a) above, in the place in which the relevant clearing system is located.

Payments

On and after 18 May 2014, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note and, if no further payment fails to be made in respect of the Notes, against surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. The Issuer shall procure that the amount so paid shall be entered pro rata in the records of Euroclear and Clearstream, Luxembourg and the nominal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 11. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 11) other than with respect to the payment of principal and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

Meetings

The Noteholder of the Global Note shall be treated at any meeting of Noteholders as having one vote in respect of each EUR 1,000 principal amount of Notes for which the Global Note may be exchanged.

Prescription

Claims for principal and premium (if any) in respect of the Global Note shall become void unless the Global Note is surrendered for payment within five years, and claims for interest shall become void unless made within five years, in each case as of the appropriate due date.

Cancellation

Cancellation of any Note will be effected by a reduction in the principal amount of the Global Note.

Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate.

7. USE OF PROCEEDS

The net proceeds of the issue of the Notes will be applied by the Issuer for general corporate purposes, including repayment of existing indebtedness.

8. SELECTED FINANCIAL INFORMATION

The selected financial information of NN set out below includes the following:

- certain consolidated financial information as at and for the years ended 31 December 2013, 2012 and 2011, which has been extracted from the 2013 Annual Accounts, prepared in accordance with IFRS and audited by Ernst & Young Accountants LLP;
- certain information with respect to NN's operating result, a non-GAAP measure, together with a reconciliation of operating result to NN's IFRS result before tax from continuing operations, for the years ended 31 December 2013, 2012 and 2011, which has been derived from NN's consolidated financial statements; and
- other data and key performance indicators as at and for the years ended 31 December 2013, 2012 and 2011.

In order to provide comparable information given the disposal of all material insurance and investment management operations of NN in the United States, Latin America, and Asia/Pacific (excluding Japan) (see "*Business—Material Agreements—Acquisitions and disposals*"), the information in this section for the years 2012 and 2011 is extracted from NN's:

- restated consolidated profit and loss account for the years 2012 and 2011; and
- reclassified consolidated balance sheet for the years ended 31 December 2012 and 2011.

The information provided below should be read in conjunction with the section entitled "*Important Information—Presentation of financial and other information*" and the 2013 Annual Accounts.

SELECTED CONSOLIDATED PROFIT AND LOSS INFORMATION OF NN

	for the year ended 31 December		
(in millions of EUR)	**2013**	**2012**	**2011**
Continuing operations			
Gross premium income	9,530	10,705	11,292
Investment income	3,619	3,739	3,483
Result on disposals of group companies	-45	-	-4
Gross commission income	*956*	*924*	*1,337*
Commission expense	*-330*	*-331*	*-700*
Commission income	626	593	637
Valuation results on non-trading derivatives	-2,891	-2,574	1,025
Foreign currency results and net trading income	186	539	-117
Share of result from associates	97	37	190
Other income	39	-22	110
Total income	11,161	13,017	16,616
Gross underwriting expenditure	*13,585*	*15,867*	*13,444*
Investment result for risk of policyholders	*-4,930*	*-5,517*	*-206*
Reinsurance recoveries	*-70*	*-73*	*-81*
Underwriting expenditure	8,585	10,277	13,157
Intangible amortisation and other impairments	11	69	42
Staff expenses	1,178	1,037	1,128
Interest expenses	591	605	728
Other operating expenses	848	1,274	1,093
Total expenses	11,213	13,262	16,148
Result before tax from continuing operations	-52	-245	468
Taxation	-50	-113	15
Net result from continuing operations (before attribution to minority interests)	**-2**	**-132**	**453**
Discontinued operations[1]			
Net result from discontinued operations	45	839	-202
Net result from classification as discontinued operations	-42	-394	-
Net result from disposal of discontinued operations	17	752	995
Total net result from discontinued operations	**20**	**1,197**	**793**
Net result from continuing and discontinued operations (before attribution to minority interests)	**18**	**1,065**	**1,246**

(1) In conformity with IFRS, the results of businesses that have been divested or are presented as held for sale as at 31 December 2013 are presented under the line item "discontinued operations" in the profit and loss account. For a more detailed explanation, see "*Important Information—Presentation of financial and other information*".

SELECTED CONSOLIDATED BALANCE SHEET INFORMATION OF NN

		as at 31 December	
	2013	2012	2011
(in millions of EUR)		**reclassified[1]**	**reclassified[1]**
Assets			
Cash and cash equivalents	7,155	4,347	9,707
Financial assets at fair value through profit and loss:			
– trading assets	736	586	503
– investments for risk of policyholders	39,589	43,821	43,075
– non-trading derivatives	3,126	4,662	5,157
– designated as at fair value through profit and loss	482	2,696	29
Available-for-sale investments	61,014	68,316	60,646
Loans and advances to customers	25,319	17,676	20,870
Reinsurance contracts	252	266	373
Investments in associates	1,028	1,265	1,435
Real estate investments	764	799	865
Property and equipment	164	203	243
Intangible assets	392	437	510
Deferred acquisition costs	1,353	3,142	3,404
Other assets	3,754	4,558	5,670
Total assets excluding assets held for sale	**145,128**	**152,772**	**152,488**
Assets held for sale	630	185,981	183,120
Total assets	**145,758**	**338,753**	**335,608**
Equity			
Shareholder's equity (parent)[2]	14,227	26,423	23,412
Minority interests	68	217	62
Total equity	**14,295**	**26,640**	**23,474**
Liabilities			
Subordinated loans	2,892	2,947	4,367
Debt securities in issue		773	2,934
Other borrowed funds	4,817	5,293	5,876
Insurance and investment contracts	111,551	123,013	121,683
Customer deposits and other funds on deposit	5,769		
Financial liabilities at fair value through profit and loss:			
– non-trading derivatives	1,843	2,610	1,696
Other liabilities	4,125	5,920	5,808
Total liabilities excluding liabilities held for sale	**130,997**	**140,556**	**142,364**
Liabilities held for sale	466	171,558	169,770
Total liabilities	**131,463**	**312,113**	**312,134**
Total equity and liabilities	**145,758**	**338,753**	**335,608**

(1) In order to provide comparable information, NN has prepared Reclassified Balance Sheets. See "*Important Information—Presentation of financial and other information*" and Note 54 of the 2013 Annual Accounts.

(2) The decrease in shareholder's equity to EUR 14,227 million as at 31 December 2013 from EUR 26,423 million as at 31 December 2012 was mainly due to EUR 3,793 million unrealised negative revaluations of available-for-sale investments (net of deferred profit-sharing) primarily in the bond portfolio due to higher market interest rates and a EUR 8,784 million change in the composition of the Issuer related to the initial public offering of ING U.S. and the transfer of the remaining stake in ING U.S. to ING Groep on 30 September 2013 through a dividend in kind. These reductions in shareholder's equity were partly offset by a EUR 444 million net capital contribution from ING Groep. For a more detailed explanation of the changes in shareholder's equity, see "Parent company statement of changes in equity of NN Group N.V." in the 2013 Annual Accounts.

SELECTED OPERATING RESULT INFORMATION BY SEGMENT

Operating result (before tax) as presented by NN is a non-GAAP financial measure that is not a measure of financial performance under IFRS. Because it is not determined in accordance with IFRS, operating result as presented by NN may not be comparable to other similarly titled measures of performance of other companies in its industry. For a discussion on how NN calculates operating result, see "*Important Information—Presentation of financial and other information*".

NN's segments correspond to its internal management reporting by business line. NN's ongoing business includes all operations of NN which are consolidated as at 31 December 2013, excluding the Japan Closed Block VA and Insurance Other segments.

The table below sets forth the reconciliation between segment reporting based on operating result (before tax) and result before tax for continuing operations from the consolidated profit and loss account for the years ended 31 December 2013, 2012 and 2011. Under IFRS, the consolidated profit and loss account is presented before attribution of the results to minority interests.

	for the year ended 31 December		
(in millions of EUR)	**2013**	**2012**	**2011**
Operating result[1]			
Netherlands Life	709	623	768
Netherlands Non-life	79	103	186
Insurance Europe	199	219	266
Japan Life	162	196	119
Investment Management	131	109	124
Subtotal	**1,279**	**1,250**	**1,463**
Other[2]	-373	-399	-313
Operating result ongoing business[3]	**905**	**852**	**1,150**
Non-operating items ongoing business	-229	-779	-660
of which gains/losses and impairments[4]	97	70	-433
of which revaluations[5]	3	-319	23
of which market and other impacts[6]	-329	-530	-250
Japan Closed Block VA[7]	-669	105	138
Insurance Other[8]	-18	-22	-28
Special items before tax[9]	-126	-451	-214
Result on divestments[10]	84	50	83
Result before tax	**-52**	**-245**	**468**
Taxation	-50	-113	15
Net result from continuing operations before attribution to minority interests	**-2**	**-132**	**453**
Net result from discontinued operations	20	1,197	793
Net result from continuing and discontinued operations (before attribution to minority interests)	**18**	**1,065**	**1,246**

(1) Result before tax in accordance with IFRS, excluding the impact of non-operating items, divestments, discontinued operations and special items.

(2) Other comprises (the operating result of) the business of NN Bank and NN Re, the result of the holding company and certain other results.

(3) Ongoing business includes all segments of NN which are consolidated as at 31 December 2013, excluding Japan Closed Block VA and Insurance Other.

(4) Realised gains and losses as well as impairments on financial assets that are classified as available for sale.

(5) Revaluations on assets marked-to-market through the profit and loss account.

(6) Primarily the change in the provision for guarantees on separate account pension contracts (net of hedging) in the Netherlands.

(7) Result before tax of Japan Closed Block VA.

(8) Insurance Other comprises the costs of the claims filed by the purchaser of certain Mexican subsidiaries and corporate expenses of ING Groep allocated to NN.

(9) Special items represent (material) items of income or expense that arise from events or transactions that are clearly distinct from the ordinary activities of the company.

(10) Result on divestments comprises the result before tax from NN's share in the result of SulAmérica and results from the settlement of a pension portfolio in the Netherlands.

As under IFRS, the consolidated profit and loss account is presented before attribution of the results to minority interests. The table below sets forth the net result from continuing operations after attribution of the results to minority interests. For a more detailed overview, see also "Consolidated profit and loss account of NN Group" and Note 36 "Segments" in the 2013 Annual Accounts.

	for the year ended 31 December		
(in millions of EUR)	**2013**	**2012**	**2011**
Net result from continuing operations before attribution to minority interests	**-2**	**-132**	**453**
Net result from continuing operations attributable to minority interests	16	21	14
Net result from continuing operations	**-18**	**-153**	**439**

SELECTED CONSOLIDATED BALANCE SHEET INFORMATION BY SEGMENT

The table below sets forth certain selected consolidated balance sheet information with respect to NN's segments as at 31 December 2013.

	for the year ended 31 December 2013 *(unaudited)*			
(in millions of EUR)	**Total assets**	**Investments**[1]	**Total liabilities**	**Insurance and investment contracts**[2]
Segment				
Netherlands Life	79,087	75,867	69,154	64,901
Netherlands Non-life	4,426	3,921	3,692	3,323
Insurance Europe	22,004	19,804	20,175	19,484
Japan Life	9,438	8,273	8,147	7,233
Investment Management	552	162	192	
Other	32,842	26,767	18,482	924
Ongoing business	**148,349**	**134,794**	**119,842**	**95,865**
Japan Closed Block VA	18,651	16,471	17,415	15,763
Held for sale	630	-	466	-
Eliminations[3]	-21,872	-19,207	-6,260	-77
Total NN	**145,758**	**132,058**	**131,463**	**111,551**

(1) Investments include the consolidated balance sheet items financial assets at fair value through profit and loss, available-for-sale investments, loans and advances to customers, investments in associates and real estate investments.

(2) Provisions for insurance and investments contracts (net of reinsurance).

(3) Elimination of intercompany balances in NN's consolidated accounts.

SELECTED KEY PERFORMANCE INDICATORS AND OTHER KEY FIGURES

NN uses a variety of key performance indicators to assess the Issuer's financial performance and that of its business segments. The Issuer believes that each of these measures provides meaningful information with respect to the financial performance of its business and operations. However, certain key performance indicators are non-GAAP financial measures and should not be viewed as a substitute for financial measures in accordance with IFRS. Furthermore, these measures may be defined or calculated differently by other companies, and as a result the key performance indicators of NN may not be comparable to similarly titled measures calculated by other companies.

(in millions of EUR)	**for the year ended/as at 31 December** ***(unaudited)*** **2013**	**2012**	**2011**
Ongoing business			
Gross premium income[1]	9,525	10,713	11,281
New sales life insurance (APE)[2]	1,227	1,353	1,433
Total administrative expenses[3]	1,807	1,806	1,815
of which staff expenses	1,181	1,135	1,091
Cost/income ratio (administrative expenses /operating income)	37.1%	36.0%	35.2%
Combined ratio Netherlands Non-life[4]	101.5%	101.5%	97.4%
Investment Management AuM (end of period)	174,124	184,795	168,736
Life general account invested assets (end of period)[5]	75,084	75,470	74,492
Investment spread (Investment margin[6]/Life general account invested assets) (bps, four quarter rolling average)	86	89	103
Client balances (end of period)[7]	208,931	192,914	173,276
Japan Closed Block VA			
IFRS reserve (end of period)[8]	868	3,306	5,195
Account value (end of period)[9]	14,687	16,894	17,605
Net amount at risk (end of period)[10]	663	4,187	7,095
Total NN			
Total administrative expenses[3]	1,842	1,841	1,852
Cost/income ratio (administrative expenses/operating income)	36.8%	35.7%	34.9%
Client balances (end of period)[7]	223,630	209,749	190,866
IGD Solvency I ratio (end of period)[11]	257%	236%	225%

(1) Total premiums (whether or not earned) for insurance contracts written or assumed, without deductions for premiums ceded to reinsurers.

(2) Sum of annual premiums and one tenth of single premiums sold.

(3) That part of operating expenses which is not directly attributable to acquiring new business.

(4) Non-life insurance claims and expenses as percentage of net earned premiums, for Netherlands Non-life excluding the broker business.

(5) All assets of NN that support its life insurance operations, except those assets designated for a separate account.

(6) The margin between gross investment income (excluding non-operating items) on general account assets and NN's capital and surplus minus interest credited to the general account policyholder liabilities (including profit sharing) and related investment expenses.

(7) All on- or off-balance customer accounts on which NN earns a spread or a fee.

(8) The liability established under IFRS by NN to reflect the estimated cost of (guaranteed minimum) policyholder benefits and related expenses in accordance with the terms and conditions of the VA contracts written by Japan Closed Block VA.

(9) The sum of the accumulation values of the assets backing the VA contracts. Account values are equal to client balances for Japan Closed Block VA.

(10) The difference between the guaranteed minimum benefits offered by a VA contract and the account value, for those policies where the guaranteed value exceeds the current account value.

(11) Available solvency capital as percentage of required solvency capital, both as defined in the Insurance Groups Directive (IGD) of the EU.

9. INDUSTRY OVERVIEW

INTRODUCTION

This chapter presents an overview of the businesses in which NN is active in the Netherlands, the rest of Europe and Japan and consists of five sub-sections:

(a) the life and non-life insurance market in the Netherlands;

(b) the insurance market and pension industry in the other countries in Europe where NN is active;

(c) the COLI market in Japan;

(d) the European and Dutch investment management industry; and

(e) the banking industry in the Netherlands.

In 2013 NN derived 61% of its total operating result (before tax) from ongoing business excluding the Other segment (see "*Business—Overview—Other*") in its insurance businesses in the Netherlands. The first section of this chapter therefore provides an overview of the Dutch insurance industry, which can be divided into three categories (i) life insurance (including pensions), (ii) non-life insurance (including income insurance), and (iii) healthcare insurance. The healthcare insurance segment is not described in detail in this chapter as NN does not provide healthcare insurance in the Netherlands.

The second section provides a description of the insurance and pension industry in each European country other than the Netherlands where NN is active; namely in CEE (which includes, for these purposes, Poland, Turkey, the Czech Republic, the Slovak Republic, Romania, Hungary and Bulgaria) and the rest of Europe (which includes, for these purposes, Belgium, Spain, Greece and Luxembourg). The insurance industry in these countries can be segmented into three categories (a) life insurance, (b) pensions and (c) non-life insurance. In order to ensure comparability between the market sizes of each country, NN has relied on data from Swiss Re for the total insurance market of each country. However, given that Swiss Re data is based on market estimates, NN has used data from national sources to describe the sub-segments of each national market.

The third section describes the life insurance market in Japan and, since Japan Life offers COLI products in Japan, the COLI insurance market. COLI products are traditional life insurance policies that a company (mainly small- or medium-sized enterprises (**SMEs**)) takes out on the lives of executives or employees, whereby the company is both the policyholder and the beneficiary of the policy.

The fourth section outlines the European investment management industry. This section also provides a more detailed description of the Dutch investment management industry since NN's main investment hub is in the Netherlands.

The final section of this chapter provides a brief overview of the Dutch banking industry, focusing on those markets in which NN is active and the main product categories offered by NN.

The Issuer has included information from Independent Sources for the years 2012, 2011 and 2010 (market data for 2013 is generally not yet available). Certain market and industry information in this Prospectus has been converted into euro. Conversion has taken place at the exchange rate as at 31 December of the relevant year to which the respective market and industry information relates (see "*Important Information—Presentation of financial and other information—Market and industry data and exchange rates*").

THE NETHERLANDS

Macroeconomic environment

The gross domestic product (**GDP**) of the Netherlands was EUR 561 billion and decreased by 1.2% in 2012, after the Dutch economy recorded growth of 0.9% in 2011 (2010: increase of 1.7%) (source: World Bank). While the crisis in the eurozone has contributed to the weak economic performance of the Netherlands, high household leverage, declining real disposable incomes and falling housing prices are also contributing factors (source: Moody's, May 2013).

Recent developments

The Dutch economy began to stabilise in 2013. At the end of 2013 unemployment was stable at 7.0% and the Dutch economy reported 0.1% growth in the third quarter, while price declines in the Dutch housing market were coming to a halt (source: CBS).

As a result of events unfolding since the beginning of the financial crisis in 2008, the Dutch State has become heavily involved in the Dutch financial sector, including providing guarantees for, taking capital positions in and ownership of, participants. In 2008 ABN AMRO and ASR were acquired and nationalised by the Dutch State while ING Groep, Aegon and SNS REAAL received capital injections. On 1 February 2013, the Dutch government nationalised SNS REAAL, which at the time was the fourth largest bank, the third largest life insurance company and the fifth largest non-life insurance company in the Netherlands.

In November 2013 rating agency Standard & Poor's downgraded the AAA rating of the Netherlands to AA+, attributable to its view that Dutch growth prospects were now weaker than they had previously anticipated, and the real GDP per capita trend growth rate was persistently lower than that of peers. Standard & Poor's does not anticipate that real economic output will surpass 2008 levels before 2017, and believes that the strong contribution of net exports to growth has not been enough to offset a weak domestic economy (source: Standard & Poor's, 2013). A weak economy has an indirect negative impact on the financial strength of Dutch insurers; revenue growth is constrained as insured sums are correlated to GDP growth (source: Moody's, May 2013). Moody's and Fitch confirmed their AAA ratings for the Netherlands in August 2013 and January 2014.

Insurance industry

Introduction

The Dutch insurance market (including healthcare premiums) was the fifth largest in Europe, behind the United Kingdom, France, Germany and Italy. The Dutch insurance market represented 11.4% of the European insurance market in 2012 (source: Swiss Re, May 2013).

The Netherlands ranked the second highest in Europe in 2012 in terms of insurance density (source: Swiss Re, May 2013) and has a GWP per capita of EUR 4,464 (source: Verbond van Verzekeraars, September 2013). The Dutch insurance market is a mature market, with GWP as a percentage of GDP at 13.0% (source: Swiss Re, May 2013). In 2012, Dutch insurance companies paid out EUR 69 billion in claims to their customers, and received EUR 75 billion in premiums during 2012 (source: Verbond van Verzekeraars, September 2013).

The compounded annual growth rate (**CAGR**) of the Dutch insurance market amounted to -1.8% between 2010 and 2012 (source: DNB).

Recent developments

The majority of the larger Dutch life insurance companies have been using the ECB AAA curve to determine the regulatory value of insurance liabilities. On 12 July 2013, Fitch downgraded France to AA+, resulting in French government bonds no longer being included in the ECB AAA curve. The downgrade caused a drop of the ECB AAA curve of on average 15 basis points (dependent on the point on the curve), leading to an increase in the value of the liabilities held by insurers and therefore a decrease in regulatory capital. The DNB swap curve is the only alternative curve recognised by DNB that is available to Dutch life insurance companies to discount liabilities. Since the downgrade of France's credit rating by Fitch, a number of life insurance companies, including NN's Dutch life insurance business, have started to use the DNB swap curve to determine the regulatory value of insurance liabilities (source: DNB).

On 1 January 2014, an interim solvency regulation (commonly referred to as Solvency 1.5) came into force in the Netherlands, in addition to the existing Solvency I. Solvency 1.5 places additional requirements on management of capital that may, among other consequences, increase the costs of capital for Dutch life insurance companies. The legislation also introduces the TSC, which applies to large- and medium-sized life insurance companies in the Netherlands. The aim of the TSC is to ensure that, after the realisation of some pre-defined stress scenarios, insurance companies still comply with their solvency requirements. If the solvency position of an insurer is below the TSC, a declaration of no objection from DNB is required for dividend payments and other withdrawals from own funds, for example the repayment of debt. Additionally, DNB could require the insurance company to submit a recovery plan. This new regulation fits within the Minister of Finance's strategy to make the supervision of insurance companies more risk sensitive and forward-looking.

Products

The Dutch insurance industry can be segmented into three categories of insurance products (a) life insurance (including pensions), (b) non-life insurance (including income insurance) and (c) healthcare insurance.

The table below sets out the breakdown by life insurance segment in the Netherlands in terms of GWP and percentage of total GWP for the years ended 31 December 2012, 2011 and 2010.

GWP

	2012		**2011**		**2010**	
(in billions of EUR)	**GWP**	**% of total GWP**	**GWP**	**% of total GWP**	**GWP**	**% of total GWP**
Life	19.0	*25.3%*	21.9	*27.8%*	21.5	*27.6%*
Non-life	16.2	*21.6%*	16.4	*20.7%*	16.9	*21.7%*
Healthcare	39.9	*53.1%*	40.4	*51.4%*	39.4	*50.6%*
Total	**75.1**	***100.0%***	**78.7**	***100.0%***	**77.8**	***100.0%***

(source: DNB)

The healthcare insurance market in the Netherlands is not discussed in this chapter since NN does not offer healthcare insurance in the Netherlands.

Distribution channels

The distribution channels for life and non-life insurance are (a) intermediaries (independent agents, brokers, mandated brokers and actuarial consulting firms), (b) bancassurance, (c) direct, (d) tied agents and (e) other channels (such as post offices and retailers).

Distribution channels in the Dutch insurance market have changed significantly in recent years. Regulatory developments and increased competition have led to a decrease in the number of intermediaries. Also, the larger insurance brokers have been consolidating and the number of independent agents has been decreasing. At the same time, insurance companies have been building up their direct distribution capabilities, balancing this with their existing relationships with intermediaries.

Competitive landscape

The table below sets out the breakdown by main insurance companies in the Netherlands in terms of percentage of total GWP for the years ended 31 December 2012, 2011 and 2010.

Market shares (excluding healthcare insurance)	**2012**	**2011**	**2010**
Achmea	16.0%	15.2%	15.7%
NN	**15.5%**	**16.0%**	**15.8%**
Delta Lloyd Group	11.6%	12.6%	10.4%
ASR	10.9%	10.9%	11.7%
Aegon	10.7%	10.5%	10.1%
SNS REAAL	9.7%	9.6%	9.7%
Other	25.6%	25.2%	26.6%
Total	**100.0%**	**100.0%**	**100.0%**

(source: DNB)

Life insurance market

Introduction

The Dutch life insurance market was the eighth largest life insurance market in Europe in 2012 measured by GWP, behind the United Kingdom, France, Germany, Italy, Ireland, Spain and Switzerland and accounting for 3.3% of the European life insurance market. The life insurance density in the Netherlands measured by GWP per capita was EUR 1,129 in 2012 (source: DNB). The Netherlands has the eleventh highest GWP per capita in Europe (source: Swiss Re, May 2013). The GWP volume of the life insurance market in the Netherlands amounted to EUR 19 billion in 2012, and the life insurance market represented 25.3% of the total Dutch insurance market (source: DNB). The invested capital (*belegd vermogen*) in life insurance amounted to EUR 382 billion in 2012 (source: Dutch Ministry of Finance). The CAGR of the life insurance market in the Netherlands was negative 6.1% between 2010 and 2012 (source: NN analysis based on DNB).

The market for life insurances can be split between group and individual policies. For in-force business, the individual life insurance market was the largest segment of the Dutch life insurance market, accounting for 59% (EUR 11 billion) of life insurance GWP generated in 2012. Group life insurance policies accounted for 41% (EUR 7.9 billion) of the GWP generated by the life insurance market in 2012 (source: NN analysis based on DNB).

The table below sets out the breakdown by life insurance policies in terms of GWP for the years ended 31 December 2012, 2011 and 2010.

GWP *(in billions of EUR)*	**2012**	**2011**	**2010**
Life insurance			
Group	7.9	8.9	7.5
Individual	11.1	13.0	14.0
Total	**19.0**	**21.9**	**21.5**

(source: Dutch Ministry of Finance)

The Dutch pension system comprises three pillars: (a) mandatory state pension scheme, (b) employer-based schemes and (c) voluntary pension facilities. Most pension schemes are based on defined benefit and provide lifelong guarantees. The second pillar, employer-based schemes, is occupational or universal. In 2012, the Dutch insurance companies had a 19.6% market share of the Dutch pension market, generating EUR 7.9 billion measured by GWP. Industry-wide pension funds and company pension funds held the remaining 80.4% market share in 2012, accounting for EUR 32.3 billion measured by GWP in 2012 (source: NN analysis based on DNB).

Products

Group life insurance products are policies pursuant to which employers offer certain pension products and other insurance benefits (such as disability protection) to their employees. In the Netherlands, these benefits require the approval of employee representatives.

Life insurance policies can also be distinguished by type of premium payment (recurring or single premiums), and on the basis of insurance payments by the insurance company (capital sum or annuity). Life insurance policies can be split into traditional life insurance policies, where the insurance company bears the investment risk, and unit-linked insurance policies (*beleggingsverzekeringen*), where the policyholder bears the investment risk. Since 2008 there has been a significant decline in the sales of individual life insurance products. Legislative changes introduced in 2008 have enabled banks to offer bank annuity products that compete with life insurance products and benefit from the same tax efficiency as mortgage or pension-related individual life insurance products. Also, as stock markets began to decline, unit-linked products became less attractive as lower returns were borne by policyholders. These lower returns triggered a discussion on costs and cost transparency issues and resulted in negative public attention and litigation. In its sector-wide investigation report of 2008, the AFM estimated that in the Netherlands, in total, approximately 7.2 million individual unit-linked retail policies had been sold.

The table below sets out the breakdown by product category and premium type in terms of GWP and percentage of total GWP for the years ended 31 December 2012, 2011 and 2010.

GWP

	2012		**2011**		**2010**	
(in billions of EUR)	**GWP**	**% total GWP**	**GWP**	**% total GWP**	**GWP**	**% total GWP**
Group life	**7.9**	**41.5%**	**8.9**	**40.5%**	**7.5**	**34.9%**
Traditional	***3.7***	***19.4%***	***4.1***	***18.9%***	***3.1***	***14.3%***
Annual premium	2.0	10.3%	1.8	8.3%	1.7	8.1%
Single premium	1.7	9.1%	2.3	10.6%	1.4	6.3%
Unit-linked	***4.2***	***22.1%***	***4.7***	***21.5%***	***4.4***	***20.6%***
Annual premium	3.1	16.1%	2.9	13.2%	2.7	12.4%
Single premium	1.1	6.0%	1.8	8.3%	1.7	8.2%
Individual life	**11.1**	**58.5%**	**13.0**	**59.5%**	**14.0**	**65.1%**
Traditional	***7.2***	***37.9%***	***8.4***	***38.5%***	***8.8***	***41.1%***
Annual premium	4.1	21.5%	4.2	19.4%	4.3	19.9%
Single premium	3.1	16.4%	4.2	19.1%	4.5	21.2%
Unit-linked	***3.7***	***19.4%***	***4.3***	***19.8%***	***4.9***	***22.5%***
Annual premium	3.5	18.2%	3.6	16.3%	4.5	20.6%
Single premium	0.2	1.2%	0.7	3.4%	0.4	1.9%
Other	**0.2**	**1.2%**	**0.3**	**1.3%**	**0.3**	**1.5%**
Total	**19.0**	**100.0%**	**21.9**	**100.0%**	**21.5**	**100.0%**

(source: DNB)

Distribution

In the Netherlands life insurance products are sold through intermediaries, bancassurance, direct and other channels. The intermediary channel is the main distribution channel and was responsible for around 62% of life insurance GWP in 2012 (source: Verbond van Verzekeraars – Centrum voor Statistiek).

The table below sets out the breakdown by distribution channel in terms of percentage of total GWP for the years ended 31 December 2012, 2011 and 2010.

% of total GWP			
	2012	**2011**	**2010**
Intermediaries	61.6%	64.4%	60.0%
Bancassurance	10.8%	10.9%	12.0%
Direct	25.1%	22.4%	28.0%
Other	2.5%	2.3%	0%
Total	**100.0%**	**100.0%**	**100.0%**

(source: Verbond van Verzekeraars – Centrum voor Statistiek)

Competitive landscape

The table below sets out the breakdown of the leading life insurance companies in the Netherlands (and their group life and individual life insurances businesses) in terms of percentage of total GWP for the years ended 31 December 2012, 2011 and 2010.

Market shares				
		2012	**2011**	**2010**
NN	**Total**	**20%**	**21%**	**21%**
	Group	*21%*	*21%*	*24%*
	Individual	*20%*	*20%*	*19%*
Aegon	**Total**	**16%**	**15%**	**15%**
	Group	*27%*	*24%*	*27%*
	Individual	*9%*	*9%*	*9%*
SNS REAAL	**Total**	**14%**	**13%**	**14%**
	Group	*15%*	*13%*	*12%*
	Individual	*13%*	*13%*	*14%*
Delta Lloyd	**Total**	**13%**	**15%**	**12%**
	Group	*16%*	*22%*	*14%*
	Individual	*11%*	*11%*	*11%*
Achmea	**Total**	**13%**	**12%**	**13%**
	Group	*11%*	*10%*	*12%*
	Individual	*14%*	*14%*	*13%*
ASR	**Total**	**10%**	**10%**	**12%**
	Group	*9%*	*6%*	*7%*
	Individual	*10%*	*12%*	*14%*
Other	**Total**	**14%**	**14%**	**13%**
	Group	*1%*	*4%*	*4%*
	Individual	*23%*	*21%*	*20%*
Total		**100%**	**100%**	**100%**

(source: DNB)

The combined market share measured by GWP of the top six providers of group life insurance was approximately 99% in 2012. The combined market share measured by GWP of the top six providers of individual life insurance was approximately 77% in 2012.

Industry trends and developments

- ***Link between mortgages and individual life insurance in the Netherlands***: In the Netherlands, individual life insurance products are strongly linked to the mortgage market, because mortgage-related savings products and protection products represent an important part of life insurance sales. The slowdown of the Dutch economy, in particular the mortgage market, has had an adverse effect on the demand for life insurance (source: Moody's, May

2013). See also "—*Bank—Industry trends and developments*" for more details on the measures implemented to dampen interest-only and high 'loan-to value' (LTV) mortgage lending.

- ***Bank annuity products are replacing individual life insurance products***: Legislative changes introduced in 2008 have enabled banks to offer bank annuity products that compete with life insurance products and benefit from the same tax efficiency as mortgage or pension-related individual life insurance products. Since 2008, there has been a significant decline in the sales of individual life insurance products, while the underlying savings' needs of consumers have been met by, amongst others, bank annuities. In 2011 banks sold more bank annuities than insurance companies sold individual life insurance products (source: AM Jaarboek 2012). The growth in bank annuity products exceeded the decline in individual life insurance products, although the growth in sales of bank annuities slowed from 39% in 2011 to 27% in 2012 (source: IG&H Consulting & Interim, March 2013). In addition to the replacement by bank annuity products, the decline in the individual life insurance sector can be attributed to lower returns due to declines in stock markets following the financial crisis and consumers' negative perception of unit-linked products.
- ***Defined contribution pension schemes are replacing defined benefit pension schemes***: Traditional Dutch group pension schemes are defined benefit pensions offering investment guarantees to employees. As a result of demographic change, new legislation and financial pressure, defined benefit pension schemes are under pressure and defined contribution pensions are becoming an increasingly attractive alternative. Companies are reconsidering their pension schemes, looking for more affordable defined contribution alternatives which produce less volatile results for the employer. The share of participants enrolled in defined contribution pension schemes increased from 41% in 2010 to 49% in 2012 (source: NN analysis based on DNB). The introduction of premium pension institutions (*premie pensioen instelling*) (**PPI**) for defined contribution pension plans has led to new entrants in the pension market, such as banks and investment managers. The increased number of suppliers has increased competition and led to reduced costs for defined contribution schemes. For insurance companies, the continuing low interest rate environment has gradually eroded margins on the defined benefit products, adding further impetus to the shift towards defined contribution pension schemes.
- ***New legislation prohibits commission payments***: As of 1 January 2013, a new law prohibiting commission payments (the so-called *provisieverbod*) entered into force in the Netherlands. This law is an extension of a similar law prohibiting hidden commissions in relation to non-life insurance products, which entered into force on 1 January 2012. The new law applies to complex financial products such as pensions, mortgages, life insurance, income insurance, funeral insurance and service provisions under the national EU Markets in Financial Instruments Directive (**MiFID**) regime. Pursuant to this act, all intermediaries (and other distributors) that sell these complex financial products must provide full transparency as to the fees charged to clients for providing financial advice and all fees must be paid directly by the client to the intermediary. This has led to a major shift in the business model of intermediaries, from commission-based revenue to fee-based revenue streams. Consequently, intermediaries place more emphasis on the efficiency of insurance companies' operational processes when selecting the products they distribute (source: DNB).
- ***Pension reform***: The Netherlands, like many other mature markets, is facing the economic consequences of an ageing population. To address this issue, the government extended the retirement age for occupational pensions to 67 in 2014, and linked it to life expectancy thereafter. In addition, the fiscal support for the accumulation of pension benefits has been reduced. As of 2014, only the premiums necessary to finance the accrual of pension benefits in an average pay defined benefit scheme of up to 2.15% (previously 2.25%) of the annual pensionable salary will be tax deductible. The tax deductibility of premiums paid into a defined contribution scheme as well as the maximum accrual percentages in a final pay defined benefit scheme (from 2% to 1.9%) have been lowered accordingly. A proposal for a further decrease of the tax deductibility of premiums paid into a pension scheme (based upon an accrual percentage of up to 1.875% for an average pay defined benefit scheme, in combination with a maximum pensionable salary of EUR 100,000, and a voluntary net annuity for salaries above EUR 100,000) as of 2015 has been approved by the House of Representatives and is likely to be approved by the Senate. Defined contribution schemes and defined benefit schemes based on final pay will also be lowered accordingly. The changes in pension regulations require insurers to modify their existing product portfolio and administrative systems, which can be costly. The decrease of the tax deductibility of premiums is expected to negatively impact premium inflows for pension providers.

- ***Pension funds liquidating and moving to insured solutions***: Increasing regulations for pension funds are intended to ensure that pension funds comply with minimum coverage ratios. In addition, the newly introduced IFRS accounting rules (IAS19R) require that companies report funding deficits of a company pension fund on their balance sheets. Due to these stricter requirements on funding and governance, small- and medium-sized pension funds are rapidly consolidating or are being liquidated. Furthermore, these new IFRS accounting rules are expected to result in volatility of annual earnings for companies that have a company pension fund. To reduce this volatility, these companies can turn to insurance companies to insure their potential liabilities. In the period between 1 January 2011 and 1 November 2012, 98 pension funds were liquidated. Of these liquidated pension funds, 66 have turned to insurance companies to assume their liabilities (source: DNB). After several years of poor performance, positive equity markets and reduced benefits at company pension funds have resulted in improving coverage ratios. The combination of increased regulation, accounting changes and improving coverage ratios is expected to further open up the market for pension fund buyouts. (source: RBC Capital Markets report, April 2013).

Non-life insurance market

Introduction

The Dutch non-life insurance market (including healthcare) was the fourth largest non-life market in Europe in 2012 measured by GWP, behind Germany, the United Kingdom and France. The non-life insurance density (including healthcare) in the Netherlands measured by GWP per capita was EUR 966 in 2012 (source: DNB).

The Dutch healthcare insurance segment is not described in detail in this chapter as NN does not provide healthcare insurance in the Netherlands. The Dutch non-life insurance market (excluding healthcare insurance) measured by GWP amounted to EUR 16.2 billion in 2012, representing approximately 21.6% of the total Dutch insurance industry (source: DNB).

Products

Non-life insurance policies (excluding healthcare) in the Dutch market can be categorised as follows: (a) income, compromising disability and accident (**D&A**) and (b) property and casualty (**P&C**), comprising (i) fire (including property damage, natural forces and engineering), (ii) motor (including bodywork, motor vehicle liability and bodily injury), (iii) transport (railway rolling stock, aircraft, ships, and liability for aircrafts, ships, and goods in transit) and (iv) other (general liability, miscellaneous financial loss, credit insurance and legal expenses).

The table below sets out the breakdown by product category (excluding healthcare insurance) in terms of GWP and percentage of total GWP for the years ended 31 December 2012, 2011 and 2010.

GWP

	2012		**2011**		**2010**	
(in billions of EUR)	**GWP**	**% of total GWP**	**GWP**	**% of total GWP**	**GWP**	**% of total GWP**
Income	3.9	*23.9%*	4.0	*24.4%*	4.0	*23.7%*
Fire	3.7	*22.7%*	3.5	*21.4%*	3.7	*21.9%*
Motor	4.5	*27.7%*	4.6	*28.0%*	4.6	*27.2%*
Transport	0.9	*5.4%*	0.9	*5.5%*	0.8	*4.7%*
Other	3.3	*20.3%*	3.4	*20.7%*	3.8	*22.5%*
Total	**16.2**	***100%***	**16.4**	***100%***	**16.9**	***100%***

(source: DNB)

Distribution

In the Dutch non-life insurance market (excluding healthcare insurance), most products are distributed by intermediaries (independent agents and (mandated) brokers) and through the direct channel. Overall, the intermediary channel plays a dominant role in the non-life market. However, the distribution mix varies within different market segments. The direct channel, using online platforms or call centres, plays an increasingly important role in the retail market, due to the sale of reasonably simple products that do not require additional advice. In the SME market, business owners continue to seek advice from intermediaries due to the relative complexity of products offered (sources: NN analysis based on IG&H Consulting & Interim – Distribution report, June 2013).

Competitive landscape

The Dutch non-life insurance market (excluding healthcare insurance) is a mature and highly competitive market, with 88 players active in the market in 2012. The top seven non-life insurance companies held a combined market share of approximately 66.4% (excluding healthcare insurance) measured by GWP in 2012 (source: DNB).

The table below sets out the breakdown of the leading non-life insurance companies in the Netherlands in terms of percentage of total GWP (excluding healthcare insurance) for the years ended 31 December 2012, 2011 and 2010.

Market shares

	2012	2011	2010
Achmea	19.7%	19.6%	19.3%
ASR	12.0%	12.3%	11.8%
NN	10.1%	9.8%	9.5%
Delta Lloyd	9.9%	9.2%	8.4%
Atradius	5.4%	5.0%	4.6%
SNS REAAL	4.8%	5.0%	4.8%
Allianz	4.5%	5.4%	5.7%
Other	33.6%	33.7%	35.9%
Total	**100.0%**	**100.0%**	**100.0%**

(source: DNB)

Industry trends and developments

- ***Rising claims***: The profitability of non-life insurance (excluding healthcare insurance) has deteriorated in recent years. For example, the net combined ratio (claims and operational costs in relation to earned premiums (excluding reinsurance)) in income protection increased from 85% in 2008 to 118% in 2012 (source: Verbond van Verzekeraars, 2013 – Financieel Jaarverslag 2012). This increase was driven by increased frequency and duration of reported illness and disability of employees and self-employed. The adverse claims development is correlated to the economic downturn in the Netherlands.

- ***Less production in non-life***: GWP for non-life insurance was on almost the same level in 2012 compared with 2011, but taking into account inflation of 2.5% this implied a reduction of the real premium volume. Flat premium volumes occurred in nearly all product groups (source: Verbond van Verzekeraars, 2013 – Financieel Jaarverslag Verzekeringsbranche 2012). Since 2010 new production of non-life policies for occupational disability, illness and accident coverage has grown rapidly due to increasing demand from self-employed entrepreneurs. However, as the Dutch economy remains challenging, more entrepreneurs are opting not to take occupational disability insurance (source: Moody's, May 2013).

- ***More direct distribution***: Direct distribution (including distribution through internet and mobile platforms), especially for relatively simple products, is increasing due to changing customer behaviour and technological developments. In light of the pressure on profitability, insurers are also reducing their expenses by leveraging the move towards direct distribution of non-life products, in particular motor, fire and travel insurance. Approximately 20% of non-life products are distributed directly, and all major insurance companies make use of direct internet platforms. This development will continue to place downward pressure on prices, especially in the retail and self-employed segments (source: Moody's, May 2013).

- ***Growth of market share mandated brokers***: The market share of mandated brokers as a distribution channel for non-life insurance has increased in the period between 2009 and 2012. In 2010, the market share of mandated brokers increased by 13% relative to 2009, and the GWP of mandated brokers was reported at EUR 3 billion in 2011 by the Dutch association of mandated brokers (*Nederlandse Vereniging van Gevolmachtigde Assurantiebedrijven*) (**NVGA**) (source: NVGA). The growing market share of mandated agents stems from their complementary capabilities in respect of insurance providers, and their ability to bring tailor-made solutions and niche products to the market (source: IG&H Consulting & Interim, July 2013).
- ***Fiscal changes affects market volume and prices:*** In 2011, the government raised the insurance premium tax (**IPT**) on certain policies (mainly motor and fire) to 9.7% from 7.5%. As of 1 January 2013 the IPT was raised to 21%. Insurance companies have generally passed these costs on to policyholders. As a result, consumers, entrepreneurs and companies, who are faced with these higher rates, are becoming more critical of what they do and do not insure, putting pressure on market volume and prices.

EUROPE

The second section provides a description of the insurance and pension industry in each European country where NN is active other than the Netherlands, divided into two regions: CEE (which refers in this section to Poland, the Czech Republic, the Slovak Republic, Romania, Hungary, Bulgaria and Turkey) and the rest of Europe (which refers in this section to Belgium, Spain, Greece and Luxembourg).

CENTRAL AND EASTERN EUROPE (CEE)

In CEE, the insurance industry can be segmented into three categories (a) life insurance, (b) non-life insurance and (c) pensions. The non-life insurance market is not described in this section as NN does not provide material non-life insurance in CEE.

Life insurance market

Products

The life insurance products sold in CEE are (a) traditional life insurance policies, where the insurance company bears the investment risk, (b) unit-linked insurance policies, where the policyholder bears the investment risk and (c) protection policies. In the Slovak Republic and Bulgaria, a rider category is reported as a separate product segment.

Distribution

Although there is no independently verified market data available regarding the split of GWP across distribution channels in CEE, life insurance policies in CEE (excluding Turkey) are mainly distributed through tied agents and intermediaries (independent agents and brokers). Bancassurance and the direct channel are relatively small, but have gained market share in recent years (source: NN). The distribution channels used in the Turkish life insurance market are bancassurance, intermediaries (mainly independent agents and brokers) and other sales channels, such as telesales and ATMs. In 2012, bancassurance generated 79.9% measured by APE in the Turkish life insurance market, while brokers and independent agents accounted for a combined market share of 8.4% (source: Turkish Insurance Information and Monitoring Centre).

Pension industry

Products

The pension systems in CEE consist of three pillars. The first pillar is generally a mandatory pay-as-you-go public pension system (except for Turkey), i.e. pension systems whereby the pension arrangements provided by the state are paid directly from current workers' contributions and taxes. The second pillar is generally occupational and is usually a mandatory system (except for Turkey, the Czech Republic and the Slovak Republic), based on a defined contribution or defined benefit scheme. The third pillar consists of voluntary personal pension plans. Contributions to these voluntary personal pension plans may usually not exceed a certain threshold to be tax-exempt.

Distribution

In CEE (excluding Turkey), there is no or limited distribution of mandatory pension funds. Voluntary pension products are distributed by the same channels as life insurance products; namely, tied agents, intermediaries, bancassurance and the direct channel. In Turkey, the main distribution channel for personal pension schemes was tied agents (often employed by banks), representing 65.8% of total contract sales in 2012. Bancassurance accounted for 17.5% of total contract sales, and intermediaries such as brokers and agencies represented 10.9% in 2012 (source: Turkish Pension Monitoring Centre). Retail customers constitute a majority of the market with 73.8% of total AuM (individual pension contracts), followed by corporate customers (group individual contracts, 22.6%) (source: Turkish Pension Monitoring Centre).

GDP, penetration ratio and competitive position

The table below sets out the breakdown by country in terms of GDP, penetration ratio and NN's competitive positions in the life insurance and pensions markets measured by GWP and AuM, respectively (to the extent NN is active in these markets) for the year ended 31 December 2012.

GDP, penetration ratio and competitive position 2012

(in billions of EUR)	**GDP**		**Penetration ratio life**		**NN's market position life by GWP**			**NN's market position pensions by AuM**					
CEE								**Mandatory**			**Voluntary**		
Poland	390.7 (PLN 1,595.225)	(1)	2.3%	(2)	#7	4.9%	(3)	#1	23.8%	(4) (*)		19.7%	
Czech Republic	153.2 (CZK 3,845.9)	(5)	1,2%	(6)	#4	10.5%	(7)		-		#6	10.0%	(8)
Slovak Republic	71.1	(9)	1,6%	(10)	#6	6.7%	(11)	#1	37.3%	(12) (**)	#4	11.0%	(12)
Romania	132.0	(13)	0.3%	(14)	#1	30.2%	(15)	#1	38.0%	(16)	#1	46.4%	
Hungary	95.9 (HUF 28,048.1)	(17)	1.4%	(18)	#1	16.5%	(19)	#1	24.2%	(20) (***)	#6	6.5%	
Bulgaria	39.7 (BGN 77.58)	(21)	0.4%	(22)	#8	5.0 %	(23)	#5	9.4%	(24)	#3	11.8%	
Turkey	601.2 (TL 1,416.82)	(25)	0.2%	(26)	#15	1.8%	(27)		-		#6	5.4%	(28)

(*) For recent developments regarding the mandatory second pillar personal pension plans in Poland, see "—*Industry trends and developments—Pension reform in Poland*".

(**) In 2013, the Slovak industry of mandatory second pillar pension funds were re-qualified into voluntary pension funds in 2013.

(***) For recent developments regarding the mandatory second pillar pensions in Hungary, see "—*Industry trends and developments— Consolidation pension industry Hungary".*

sources: (1) Central Statistical Office; (2) NN; (3) KNF; (4) KNF/NN; (5) EC; (6) NN; (7) Czech Insurance Association; (8) Association of Pension Funds Czech Republic; (9) EC; (140) EC; (11) NN; (12) Association of Pension Funds Management Companies; (13) ING Bank, Financial Market research; (14) Romanian Financial Supervisory Authority; (15) Romanian Financial Supervisory Authority; (16) Romanian Financial Supervisory Authority; (17) Hungarian Central Statistical Office; (18) NN; (19) Association of Hungarian Insurance Companies; (20) Central Bank of Hungary; (21) National Statistical Institute; (22) NN; (23) NN; (24) FSC; (25) Turkish Statistical Institution; (26) NN; (27) Insurance Association of Turkey; (28) Pension Monitoring Centre;

Poland

The GDP of Poland increased by 1.9% in 2012, compared with an increase of 4.5% in 2011 (2010: 3.9%). The decrease of GDP growth in 2012 compared to 2011 was mainly the result of decreased investment and demand. In 2012 investment decreased by an estimated 0.8%, while domestic demand shrank by 0.2%. This data shows an economic slowdown compared with 2011, when GDP increased by 4.5%, investments increased by 8.5% and domestic demand by 3.6% (source: Polish Ministry of Treasury).

Life insurance market

The Polish life insurance market is the fifteenth largest market in Europe measured by GWP and accounts for 1.1% of the European life insurance market (source: Swiss Re). The GWP of the life insurance market in Poland amounted to EUR 8.9 billion in 2012 (PLN 36,377 million) and EUR 7.1 billion (PLN 31,849 million) in 2011, which shows an increase of 14% (source: KNF). The life insurance density in Poland measured by GWP per capita was EUR 191 (USD 252.1) in 2012. The penetration ratio in the Polish life insurance market for the year 2012 was 2.3%.

The CAGR of the Polish life insurance market was 7.6% between 2010 and 2012.

Pension industry

The Polish industry of mandatory (second pillar) personal pension plans, also known as open pension funds (**OPF**), amounted to EUR 66 billion (PLN 269.6 billion) measured by AuM in 2012 (source: KNF). For recent developments regarding the mandatory second pillar personal pension plans in Poland, see "—*Industry trends and developments—Pension reform in Poland*". The Polish third pillar pension industry of personal voluntary pension funds amounted to EUR 869 million (PLN 3.55 billion) measured by AuM in 2012 (source: KNF).

Customers are, by law, free to switch between mandatory as well as voluntary pension funds at any time (with a transfer fee in the first year for voluntary pension funds).

Czech Republic

The GDP of the Czech Republic decreased by 1% in 2012, compared with an increase of 1.8% in 2011 (2010: 2.5%). The continuing weak global economy caused the Czech economy to contract in 2012 (source: EC). Consumption, in particular, remained subdued, as austerity measures and increased unemployment continued to put pressure on domestic demand.

Life insurance market

The Czech life insurance market was the eighteenth largest market in Europe measured by GWP, and accounted for 0.4% of the European life insurance market in 2012. The GWP of the insurance industry in the Czech Republic amounted to EUR 4.4 billion in 2012, of which EUR 1.8 billion related to life insurance (source: Czech Association of Insurers). The life insurance density in the Czech Republic measured by GWP per capita was EUR 266 (USD 350.3) in 2012 (source: Swiss Re). The penetration ratio in the Czech life insurance market was 1.75% in 2012.

The CAGR of the life insurance market in the Czech Republic was flat (0.0%) between 2010 and 2012 (source: Swiss Re).

Pension industry

The total AuM in private voluntary pension funds in the Czech Republic reached approximately EUR 9.5 billion in 2012 (source: Czech Republic Association of Pension Funds). Customers are, by law, free to switch between pension funds at any time.

Slovak Republic

The GDP of the Slovak Republic increased by 1.8% in 2012, compared with an increase of 3% in 2011 (2010: 4.4%). The growth was driven by foreign demand and investments, whereas domestic consumption stagnated, unemployment increased and the shrinking public consumption pulled GDP growth downwards in line with austerity measures (source: EC).

Life insurance market

The Slovak life insurance market was the twenty-fifth largest market in Europe measured by GWP, and accounted for 0.1% of the European life insurance market in 2012. GWP of the insurance industry in the Slovak Republic amounted to approximately EUR 2.1 billion in 2012, of which approximately EUR 1.2 billion related to life insurance (source: Slovak Association of Insurers). The life insurance density in the Slovak Republic measured by GWP per capita was EUR 170 (USD 224.4) in 2012 (source: Swiss Re). The penetration ratio in the Slovak life insurance market for the year 2012 was 1.26%.

The CAGR of the life insurance market in Slovak Republic was flat (0.0%) between 2010 and 2012 (source: Swiss Re).

Pensions industry

The Slovak industry of mandatory second pillar pension funds (which were re-qualified into voluntary pension funds in 2013) amounted to EUR 5.5 billion measured by AuM in 2012. The industry of voluntary (third pillar) personal pension plans amounted to EUR 1.3 billion measured by AuM in 2012 (source: Association of Pension Management Companies).

Customers are by law free to switch between pension funds at any time. Since 2005, the Slovak private pension system has provided mandatory personal retirement accounts which are administered by private sector pension investment management companies. In 2012, the Slovak government reduced the mandatory employee contribution to the second pillar pension scheme from 9% to 4% of an employee's salary.

Romania

The GDP of Romania increased by 0.7% in 2012, compared with an increase of 2.2% in 2011 (2010: -0.9%) (source: National Bank of Romania). Real growth was slower in 2012 than in 2011 mainly due to a weaker agricultural year and the deceleration of economic growth of Romania's main trading partners (source: National Bank of Romania).

Life insurance market

In 2012, the life insurance market in Romania was the twenty-seventh largest in Europe measured by GWP, and accounted for 0.05% of the European life insurance market (source: Swiss Re). The GWP of the insurance industry in Romania amounted to EUR 1.9 billion (RON 8,256.9 million) in 2012, of which EUR 405 million (RON 1,802.5 million) related to life insurance (source: Romanian Supervisory Authority). The life insurance density in Romania measured by GWP per capita was EUR 19 in 2012 (source: Romanian Supervisory Authority). The penetration ratio in the life insurance market in Romania for the year 2012 was 0.3%.

The CAGR of the life insurance market in Romania was 1.0% between 2010 and 2012 (source: Romanian Supervisory Authority).

Pension industry

The Romanian industry of mandatory (second pillar) pension funds amounted to EUR 2.3 billion measured by AuM in 2012. The third pillar pension industry of voluntary personal pension funds amounted to EUR 135.5 million measured by AuM in 2012 (source: Romanian Financial Authority).

The second and third pension pillars were established in 2007. The second pillar, based on defined contributions, is mandatory for employees aged 35 years or younger and optional for those who are aged between 35 and 45 years. Employees over age 45 are not eligible to participate in the mandatory pension scheme. The third voluntary pillar is open to individuals and companies acting on behalf of their employees. For both mandatory and voluntary pension funds, participants are, by law, free to switch between pension funds at any time.

Hungary

The GDP of Hungary decreased by 1.7% in 2012, compared with an increase of 1.6% in 2011 (2010: 1.3%) (source: World Bank). The economy began to recover in 2010 following a spurt in exports, especially to Germany, which continued into 2011. However the global economic downturn had a negative effect on the economy in 2012 (sources: www.indexmundi.com; OECD).

Life insurance market

In 2012, the life insurance market in Hungary was the twenty-first largest market in Europe measured by GWP, and accounted for 0.2% of the European life insurance market (source: Swiss Re). The GWP of the insurance industry in Hungary amounted to EUR 2.6 billion (HUF 760,567 million) in 2012, of which EUR 1.4 billion (HUF 402,943 million) related to life insurance. The life insurance density in Hungary measured by GWP per capita was EUR 139 (HUF 40,665) in 2012 (sources: Central Bank of Hungary; Hungarian Central Statistical Office). The penetration ratio in the life insurance market in Hungary was 1.4% in 2012.

The CAGR of the life insurance market in Hungary was -5.2% between 2010 and 2012 (source: Central Bank of Hungary).

Pension industry

The Hungarian mandatory pension funds industry amounted to EUR 702 million (HUF 205.5 billion) measured by AuM in 2012. The third pillar pension industry of voluntary personal pension plans amounted to EUR 2.8 billion measured by AuM in 2012 (source: Central Bank of Hungary).

The mandatory second pillar pension fund was introduced in 1998. In 2011, the second pillar fund was the subject of legislative reforms which led to a decrease of 93% of AuM of the second pillar pension market in 2011 as most participants joined the public pension scheme. The mandatory fund is closed to new participants and the few remaining members derive income only from existing assets (source: Central Bank of Hungary).

Voluntary personal pension funds are independent from the public social security pension system. Customers are, by law, free to switch between pension funds at any time against a limited charge.

Bulgaria

The GDP in Bulgaria increased by 0.8% in 2012 and by 1.8% in 2011 (2010: 0.4%) (source: National Statistical Institute Bulgaria). The main driver of growth in 2010 and 2011 was net exports, which increased by 14.7% in 2010 and 12.3% in 2011. In 2012, growth was mainly a result of increased domestic demand of 1.8% (source: National Statistical Institute).

Life insurance market

In 2012, the life insurance market in Bulgaria was the thirtieth largest market in Europe measured by GWP and accounted for 0.1% of the European life insurance market. The GWP of the insurance industry in Bulgaria amounted to EUR 843 million (BGN 1.6 billion) in 2012, of which EUR 137 million (BGN 268 million) related to life insurance (source: Financial Supervision Commission). The life insurance density in Bulgaria measured by GWP per capita was EUR 16 (USD 20.6) in 2012 (source: Swiss Re). The penetration ratio in the life insurance market in Bulgaria was 0.4% in 2012.

The CAGR of the life insurance market in Bulgaria was 2.5% between 2010 and 2012 (source: Financial Supervision Commission).

Pension industry

The Bulgarian industry of mandatory occupational and universal pension funds amounted to EUR 2.6 billion (BGN 5.1 billion) measured by AuM in 2012 (source: Financial Supervision Commission). The third pillar pension industry of voluntary pension plans amounted to EUR 320 million (BGN 625.81 million) measured by AuM in 2012 (source: Financial Supervision Commission).

The second pillar funds, executed by private parties, are both a universal scheme and an occupational scheme. The universal scheme is a defined contribution scheme for all employees regardless of their occupation, where participation is mandatory to those born after 31 December 1959. The occupational scheme is mandatory for all employees working in hazardous environments. Third pillar voluntary occupational schemes were introduced in 2007, based on collective bargaining agreements or collective employment contracts. Customers are, by law, free to switch between both mandatory and voluntary funds once a year.

Turkey

The GDP of Turkey increased by 2.2% in 2012, compared with an increase of 8.8% in 2011 (2010: 9.2%) (source: World Bank). The 2012 GDP growth rate did not meet the expectation of 4% (source: Ministry of Economy). The primary contributors to the slow growth in 2012 were the fall in domestic spending, and global economic developments which limited the flow of foreign capital into Turkey (source: Today's Zaman).

Life insurance market

The Turkish life insurance market is the twenty-second largest market in Europe measured by GWP, and accounts for 0.2% of the European life insurance market. The GWP of the insurance industry in Turkey amounted to EUR 8.4 billion (TRY 19,826 million) in 2012, of which EUR 1.1 billion (TRY 2,710 million) related to life insurance. The life insurance density in Turkey measured by GWP per capita was EUR 17.7 (USD 23.4) in 2012 (source: Swiss Re 2013) and the penetration ratio in the Turkish life insurance market was 0.2% in 2012.

The CAGR of the life insurance market in Turkey was 11.48% between 2010 and 2012 (source: Insurance Association Turkey).

Pension industry

The Turkish industry of voluntary (second pillar) private occupational pension funds amounted to EUR 8.5 billion (TRY 20 billion) measured by AuM in 2012 (source: Best Magazine). The third pillar pension industry of voluntary personal pension plans amounted to EUR 8.6 billion (TRY 20.3 billion) measured by AuM in 2012 (source: Turkish Pension Monitoring Centre).

Since its establishment in October 2003, the private pension industry has been growing rapidly. Private institutions also provide voluntary occupational pension funds that operate either as defined contribution or defined benefit schemes, or both. There were approximately 250 voluntary occupational pension schemes in Turkey in 2009.

Pension companies need a licence to offer private pension products. Customers are, by law, free to switch between voluntary pension funds at any time.

Industry trends and developments

- ***Pension reform in Poland:*** In February 2014 new legislation reforming the Polish pension fund regime entered into force. Under this legislation, open pension funds were required to transfer 51.5% of the private pension funds' members' assets (worth over EUR 37 billion (PLN 153 billion)), including government bonds, to the public social security institution for no consideration (source: Polish Press Agency). The legislation also provides that the reserves accumulated in the accounts of individuals in an open pension fund will be gradually transferred into the public social security institution over a ten-year period before retirement age. The maximum service fee of open pension funds has been reduced by 50% to 1.75% of the amount of contributions paid in. Moreover, membership of a private pension fund will no longer be mandatory. Current members will be entitled to choose whether or not to maintain their account in an open pension fund, but if they do not make a choice between 1 April and 31 July 2014 (or other prescribed time period in subsequent years), all future pension contributions will made to the public social security institution rather than the private pension funds. The new legislation also prohibits open pension funds from making certain investments (including government bonds). These reforms will significantly reduce the AuM in Poland and thus its fee income, as well as the fee income of pension fund managers generally, including NN. As a result of the Polish pension reform, the Polish industry of mandatory (second pillar) personal pension plans reduced from EUR 66 billion (PLN 269.6 billion) measured by AuM in 2012 (source: KNF) to EUR 37 billion (PLN 153 billion) as per 28 February 2014 (source: Polish Press Agency).
- ***New incentive scheme for pensions in Turkey***: In 2013, the Turkish government introduced new legislation governing the private pension system. This new pension legislation replaced the fiscal incentives that only benefited those under employment, whereas the new incentive scheme benefits all persons over the age of 18. Under the fiscal incentives that only benefited those under employment, the monthly private pension contributions

were tax-deductible for up to 10% of monthly salary. Under the new pension legislation, the pension contributions are not tax-deductible, but the government contributes 25% of the amount that pension participants contribute to the system (up to 25% of the annual gross minimum wage). The new incentive scheme has generated 22% asset growth in the pension industry as of December 2013 since December 2012 (source: Pension Monitoring Center).

- ***New legislation for pension fees in Turkey***: As of 1 January 2013, the Turkish government adopted new legislation lowering the legal upper limit for management and fund management fees. Under the old legislation, the upper limit of management fees was 8% of the contribution of a participant, and the upper limit of fund management fees were 3.65% on an annual basis. Under the new legislation, the upper limit of management fees is 2% of the contribution of a participant. The upper limit of fund management fees, defined depending on the fund type, ranges between 1.09% and 2.28%. This new legislation puts pressure on the profitability of private pension companies (source: Deutsche Bank AG Report).
- ***Pressure on second pillar pension industry in Czech Republic***: As of 1 January 2013, the Czech Republic implemented legislation to introduce a voluntary second pillar pension scheme; however, the pension system has become politicised. It is expected that the new coalition government (which came into power in January 2014) will cancel the second pillar as of 1 January 2016.
- ***Foreseeable increase contributions to private funds in Romania:*** In Romania the law currently in place provides for mandatory contributions to increase annually by 0.5%, starting at 2% in 2008 and reaching 6% in 2016. This law can be further adjusted by Parliament and the calendar for the increase in contributions can be altered by the Government via ordinances. According to the 2014 State Social Securities Budget, the mandatory contribution to each worker's individual account in 2014 will increase by 0.5% up to 4.5% (from the current 4%) within one of the eight private funds. Contributions are based on gross earnings. Following negotiations between the Romanian Government and the International Monetary Fund, Romania has undertaken to increase the minimum wage for 2014 in two stages. The reported changes will tend to further increase contributions to the private funds. In addition, the ages at which women may retire and at which pensions become payable from private funds could gradually increase from now until 2030, so that contributions will be paid for longer. Each of these estimated developments is likely to have a positive impact on the private pensions industry in Romania.
- ***New incentive scheme for pensions in Hungary:*** As of 1 January 2014, the Hungarian government introduced a tax incentive for life insurances for pension purposes. The new legislation allows life insurers to provide a new type of pension life insurance product with a 20% tax credit (with a maximum of EUR 438 (HUF 130,000)) paid by the government as additional premium on top of premiums paid into pension insurance contracts by private individuals. As a result, this new legislation is expected to boost the sales of long-term life insurance savings products (source: Association of the Hungarian Life Insurance Companies).
- ***Consolidation pension industry Hungary***: In 2011, the Hungarian government implemented new legislation as regards the Hungarian pension system to increase the state budget. In accordance with this new legislation, participation in the second pillar is no longer compulsory and the members of the second pillar pension funds were offered the opportunity to revert to the first pillar public pension system, or to stay in the mandatory private pension fund system. As a result, 97% of the members of the second pillar pension fund revert to the first pillar public pension system in 2011. As a consequence of this shift, the number of mandatory pension funds reduced from 19 to eight, and further consolidation is expected (source: Central Bank of Hungary).
- ***Developments in respect of unit-linked products***: In Poland, there is a self-regulatory initiative driven by the Polish Insurance Association to provide clients with detailed information about unit-linked products in terms of cost, fees and product structure. This initiative is expected to be introduced as of 1 May 2014. In Hungary, the sector has adopted self-regulation guidelines on capping the cost for unit-linked products. In the Czech Republic, a legislative proposal related to unit-linked is prepared by Ministry of Finance. Based on this proposal the insurer should provide customers with more detailed information on unit-linked products, especially the risks, guarantees, expected yields, fees, costs associated with the investment prior to selling the unit-linked product.

REST OF EUROPE

In Belgium, Spain, Greece and Luxembourg, the insurance industry can be segmented into three categories (a) life insurance, (b) non-life insurance and (c) pensions. NN provides life insurance in each of the above countries and non-life insurance in Belgium and Spain and pensions in Spain.

Life insurance market

Products

The life insurance products sold in Belgium, Spain, Greece and Luxembourg are (a) traditional life insurance policies, where the insurance company bears the investment risk and (b) unit-linked insurance policies, where the policyholder bears the investment risk. In Greece, healthcare is also classified as a life insurance product and is mainly sold as a rider in life insurance policies.

In Belgium, Spain and Greece, the traditional life insurance products accounted for the majority of GWP of life insurance products (75.0%, 83.3% and 74.2%, respectively in 2012; sources: Assuralia; Investigación Cooperativa entre Entidades Aseguradoras (ICEA); Hellenic Association of Insurance Companies (HAIC), respectively), while in Luxembourg unit-linked products accounted for the majority of premium income (69.3%) (source: Commissariat Aux Assurances (CAA)).

Distribution

In the Belgian and Spanish life insurance market, bancassurance was the main distribution channel in 2012 (61.9 % and 72% of GWP respectively; sources: Assuralia and ICEA). In Belgium, another important channel for distribution of life insurance is through brokers, which accounted for a 28.2% market share in 2011, while tied agents represented only 5% of the sales of life insurance products (source: Assuralia). In Spain, tied agents accounted for 22% of sales in 2012 (source: ICEA).

No official data exist on distribution channels in Greece, but the distribution mix seems to have been relatively stable over recent years. In the Greek life insurance market 63% of GWP in 2012 was distributed through tied agents, 29% through bancassurance, and 8% through brokers (source: HAIC; NN).

For Luxembourg, the majority of life insurance products are distributed outside Luxembourg, almost exclusively by private banks and asset managers (source: CAA 2012). Bancassurance was the main distribution channel for life insurance products supplied to foreign customers (63% of GWP), followed by the intermediary channel (33% of GWP) in 2012. Life insurance products sold to customers inside Luxembourg were distributed most commonly through intermediaries (52% of GWP) and bancassurance (28% of GWP) in 2012 (source: Commissariat Aux Assurances).

Non-life insurance market

Products

In Belgium and Spain, non-life insurance policies can be categorised as follows: (a) income, comprising D&A and (b) P&C, comprising (i) fire (including property damage and other natural forces and engineering), (ii) motor (including vehicle liability and bodywork), (iii) transport (railway rolling stock, aircraft, ships, and liability for aircraft, ships, and goods in transit), and (iv) other (general liability, miscellaneous financial loss, aid, credit insurance and legal expenses) (source: ICEA). In Belgium, healthcare insurance is a separate category, which can be included in life or in non-life, depending on the insurance company.

In Spain, motor insurance accounted for 34.1% of the total non-life insurance market measured by GWP in 2012, followed by fire (24.4%), healthcare (21.9%), other (14.5%), income (3.8%) and transport (1.6%) (source: ICEA).

Distribution

In the Belgian non-life insurance market, brokers remain the preferred distribution channel and accounted for 61.5% of the market in 2011. Tied agents had a market share of 12.7% and bancassurance had a market share of 10.3% in 2011 (source: Assuralia). Non-life insurance in Spain was most commonly distributed via tied agents (56%) in 2012. Brokers represented 24% of distribution in 2012, compared with 11% for bancassurance. Direct sales, such as through office staff and online sales, accounted for 9% in 2012, and this channel is growing, especially in relation to motor insurance (source: ICEA).

Pension industry

Products

Spain operates a pension system composed of (a) a public pension system (first pillar), (b) voluntary occupational arrangements (second pillar), and (c) private pension arrangements (third pillar). The country has a relatively small private pension market, which is dominated by third pillar insurance products.

The second pillar pensions are voluntary occupational arrangements. Employers may, on a voluntary basis, conclude pension agreements with their employees. Under the terms of the Royal Decree of 1999, the obligations arising from such agreements may be implemented through group insurance contracts and the creation of a company pension plan. Pension plans must be financed via pension funds, which have an independent legal status with the sole purpose to implement pension plans. Occupational pension plans are typically defined contribution in nature. Under the third pillar private pension arrangements, individuals participate in tax-qualifying pension schemes set up as individual pension plans and insurance. These tax-qualifying schemes are offered by the same financial institutions and under the same rules as occupational pension plans. Personal pension plans may only be defined as a benefit in nature. Customers are, by law, free to switch between voluntary pension funds and insurance retirement schemes at any time.

Distribution

In Spain pension products are distributed by the same channels as life insurance products; tied agents, intermediaries, bancassurance and the direct channel. Retail customers constitute a majority of the market with 61.4 % of total AuM (individual pension contracts), followed by corporate customers with 38.6% of total AuM (group individual contracts) (source: Inverco).

GDP, penetration ratio and competitive position

The table below sets out the breakdown by country in terms of GDP, penetration ratio and NN's competitive positions in the life and non-life insurance markets measured by GWP and in the pension market measured by AuM (to the extent NN is active in these markets) for the year ended 31 December 2012.

GDP, penetration ratio and competitive position

(in billions of EUR)	**GDP**	**Penetration ratio life**	**Penetration ratio non- life**	**NN's market position life by GWP**	**NN's market position non-life by GWP**	**NN's market position pensions by AuM**
Rest of Europe						**Voluntary**
Belgium	352.0 (1)	5.7% (2)	2.9% (3)	#10 3.3% (4)	#12 1.2% (5)	-
Spain	933.2 (6)	2.8% (7)	3.3% (8)	#16 1.5% (9)	#85 0.1% (10)	#21 6% (11)
Greece	181.3 (12)	1.0% (13)	-	#2 15.8% (14)	-	-
Luxembourg	272.0 (15)	4.5% (16)	-	#11 2.6% (17)	-	-

sources: (1) World Bank; (2) Assuralia; (3) Assuralia; (4) Assuralia; (5) Assuralia; (6) Eurostat; (7) NN; (8) NN; (9) ICEA; (10) ICEA; (11) Inverco; (12) World Bank; (13) NN; (14) HAIC; (15) Eurostat; (16) 2012 Commissariat Aux Assurance report; (17) ACA.

Belgium

The GDP of Belgium decreased in 2012 by 0.3%, compared with an increase of 1.8% in 2011 (2010: 2.4%) (source: World Bank). Belgium is highly dependent on trade with a limited number of countries (Germany, France and the Netherlands) and Belgian GDP growth therefore is strongly correlated to GDP growth in Germany, France and the Netherlands (source: IMF, 2012).

Life insurance market

The life insurance market in Belgium is the tenth largest in Europe, and accounted for 3% of the European life insurance market in 2012. The Belgian insurance industry generated EUR 32 billion measured by GWP in 2012, of which EUR 20.1 billion related to life insurance (source: Assuralia). The life insurance density in Belgium in 2012 measured by GWP per capita was EUR 1,794 (USD 2,366.8) (source: Swiss Re). The CAGR of the life insurance market in Belgium was 4.8% between 2010 and 2012 (source: Assuralia). The penetration ratio in the life insurance market in Belgium was 5.7% in 2012.

Non-life insurance market

The Belgian non-life insurance market is ranked as the ninth largest market in Europe measured by GWP, accounting for 2.2% of the European non-life insurance market in 2012. In the Belgian insurance industry, non-life insurance accounted for 35% of GWP in 2012. The non-life insurance market generated EUR 11.3 billion measured by GWP in 2012. The non-life insurance density in Belgium measured by GWP per capita was EUR 916 (USD 1,208) in 2012 (source: Swiss Re). The penetration ratio in the life insurance market in Belgium was 2.9% in 2012.

Spain

The GDP of Spain decreased by 1.6% in 2012, compared with an increase of 0.1% in 2011 (2010: -0.2%) (source: Eurostat). The decrease of GDP in 2012 was due to the decline in consumer demand and austerity measures to reduce the budget deficit (source: Bank of Spain).

Life insurance market

In 2012, the Spanish life insurance market was the sixth largest market in Europe measured by GWP, and accounted for 3.8% of the European life insurance market (source: Swiss Re). The life insurance density in Spain measured by GWP per capita was EUR 553 (USD 730.2) in 2012 (source: Swiss Re). Total GWP of the insurance industry in Spain amounted to EUR 57.4 billion in 2012, of which EUR 26.3 billion related to life insurance. The CAGR of the life insurance market in Spain was -0.2% between 2010 and 2012 (source: ICEA). The penetration ratio in the Spanish life insurance market was 2.8% in 2012.

Non-life insurance market

The non-life insurance market in Spain is ranked as the sixth largest market in Europe measured by GWP, accounting for 5.8% of the European non-life insurance market (source: Swiss Re) in 2012. Within the Spanish insurance industry, non-life insurance accounted for 54.2% of GWP in 2012. The non-life insurance market generated EUR 31.1 billion measured by GWP in 2012 (source ICEA). The penetration ratio in the Spanish life insurance market for the year 2012 was 3.3%.

Pension industry

The third pillar pension industry of private pension plans in Spain amounted to EUR 87 billion measured by AuM in 2012 (source: Inverco).

Greece

The GDP of Greece decreased by 6.4% in 2012, compared with a decrease of 7.1% in 2011 (2010: -4.9%) (source: World Bank). During the years 2008 to 2013, Greece experienced a deep recession as a result of the financial crisis and resulting strict measures implemented on its economy to reduce its deficit and outstanding debt (source: Hellenic Statistical Authority).

Life insurance market

In 2012, the life insurance market in Greece was the twentieth largest market in Europe measured by GWP, and accounted for 0.7% of the European life insurance market (source: Swiss Re). GWP of the insurance industry in Greece amounted to EUR 4.4 billion in 2012, of which EUR 1.9 billion related to life insurance (source: HAIC). The life insurance density in Greece measured by GWP per capita was EUR 176 in 2012 and the penetration ratio in the life insurance market in Greece was 1% in 2012.

The CAGR of the life insurance market in Greece was -8.6% between 2010 and 2012 (source: Swiss Re). The life insurance market in Greece (measured by GWP) has decreased by 22% in the last five years (source: HAIC).

Luxembourg

The GDP of Luxembourg decreased by 0.9% in 2012, compared with an increase of 1.9% in 2011 (2010: 3.1%) (source: Eurostat table). Luxembourg's GDP originates for a large part in the financial sector (representing about one quarter of Luxembourg's GDP, one third of its tax revenues, and one eighth of its labour force) and the turbulence on the financial markets affected the performance of the financial sector.

Life insurance market

In 2012, the life insurance market in Luxembourg was the eleventh largest market in Europe measured by GWP and accounted for 3.0% of the European life insurance market. The total GWP of the insurance industry in Luxembourg amounted to EUR 33 billion in 2012, of which EUR 21 billion related to life insurance. The insurance industry in Luxembourg generated 90% of its total GWP outside of Luxembourg in 2010 (source: Agency for the Development of the Financial Centre, 2012). Insurance density as measured by GWP per capita amounted to EUR 3,253 in 2011 (source: Commissariat Aux Assurances) and the penetration ratio in the life insurance market in Luxembourg was 4.5% in 2012.

The CAGR of the life insurance market in Luxembourg was 12.7% between 2003 and 2012 (source: Commissariat Aux Assurances).

Industry trends and developments

- ***Increased tax rate on Belgian life insurances***: The retail market in life insurance has been materially affected by recent changes in the fiscal regulations in Belgium. As a consequence of the financial crisis, the government has put in place a guarantee framework for deposits in 2011. Life insurance companies must pay a crisis tax to the government as compensation for this framework. In addition, the tax rate on premiums for life insurances increased in 2013 from 1.1% to 2%. The higher costs associated with life insurance policies are affecting the attractiveness of such products compared to alternative savings products (source: Assuralia). Further, a new obligation exists to declare foreign insurance policies in Belgium. Given the international sales from Luxembourg into Belgium, these developments negatively affect new business sales by Luxembourg into Belgium as well as existing portfolios (source: NN).
- ***Belgium annuity products less attractive***: In Belgium most pensions are paid out as a lump sum to employees upon retirement. Traditionally, consumers added coupons and dividends from savings to their legal pension, which led to a household savings rate that is amongst the highest in Europe (15.3% in 2012) (source: Eurostat). The financial crisis led to lower interest rates and lower dividends, which has made these forms of income less attractive (source: NN).

- ***Decline in public pension system in Spain***: The market for life insurance products for savings and retirement in Spain is expected to grow, due to the decline of the public pension system in combination with an ageing population (source: NN).
- ***Decrease in funding of public pensions in Greece***: The financial environment of recent years has had a significant impact on the funding of public pension schemes in Greece. This has led to the majority of the population being under-insured and it is expected that individuals will invest in complementary insurance to the public pension scheme (source: NN).
- ***Luxembourg new exchange of information legislation indirectly impacts insurance sector:*** In April 2013 the Luxembourg government announced that, as from 1 January 2015, the Luxembourg banks are required to exchange information related to bank savings in Luxembourg with foreign tax authorities, as foreseen in the European savings tax Directive. It is expected that foreign customers might leave the Luxembourg banking industry as a result of this new legislation. Many of these foreign customers of the banking industry also benefit from supplementary insurance products in Luxembourg. It is expected that this legislation will also have an indirect effect on the insurance industry, as foreign customers may stop purchasing insurance products in Luxembourg when they exit the Luxembourg banking sector (source: NN).

JAPAN

Macroeconomic environment

The GDP in Japan was EUR 4.5 trillion (USD 5.96 trillion) in 2012. Japan's GDP increased by 1.9% in 2012, compared with a decrease in GDP of 0.6% in 2011 and an increase of 4.7% in 2010 (source: World Bank). In 2011, Japan's economic activity dropped after the earthquake that hit Japan in March 2011 led to a decline in production and exports. The increase in GDP in 2012 resulted from strong domestic demand, which resulted mainly from increases in both public and private reconstruction-related demand as a result of the post-disaster reconstruction budget provided for by the government in response to the disaster (source: BOJ).

Life insurance market

In 2012, the life insurance market in Japan was the second largest life insurance market in the world measured by GWP, and accounted for 20% of the global life insurance market (source: Swiss Re). Total premium volume of life insurances in Japan amounted to EUR 326 billion (JPY 37.1 trillion) in 2012 (source: Statistics of Life Insurance Business in Japan). Japan ranked the highest in Asia in 2012 in terms of life insurance density, with GWP per capita of EUR 3,141 (USD 4,142.5) in 2012 (source: Swiss Re). For life insurance the penetration rate was 9.2% in 2012 (source: Swiss Re).

The Japanese life insurance market (excluding the results of Japan Post Insurance) grew between 2008 and 2012 with a CAGR of 4% (source: Statistics of Life Insurance Business in Japan).

COLI insurance market

The total COLI segment measured by APE amounted to EUR 4.8 billion (JPY 556 billion) in Japan in 2012. The COLI market accounted for approximately 20% of the life insurance market of Japan in 2012 (source: NN). In the period from 2008 to 2012, the COLI market grew at a CAGR rate of 9% (source: NN).

Products

COLI products are traditional life insurance policies that a company (mainly an SME) takes out on the lives of executives or employees, whereby the company is both the policyholder and the beneficiary of the policy. COLI products are designed to address the protection, savings and retirement preparation needs of SMEs and owners and employees of SMEs in a tax-efficient manner. Premiums paid by SMEs are tax-deductible (e.g. 25% to 100%) depending on product type and other factors and the cash surrender value is taxed when paid out.

Distribution

In 2012, the majority of COLI products' new business sales were distributed through independent agents (including tax advisers and bank affiliated corporate agencies) (52% of Japan's total APE in 2012), followed by tied agents (38% of Japan's total APE in 2012), Japan Post (8% of Japan's total APE in 2012) and bancassurance (including large securities houses) (2% of Japan's total APE in 2012) (source: NN).

Competitive landscape

In Japan, NN was the third largest provider of COLI products measured by APE with a market share of 9% in 2012 (source: NN).

Industry trends and developments

- ***Corporate taxation***: Set at 38% for a large Tokyo-based corporation, Japan's corporate tax rate is well above the global average of 24% (source: KPMG). The corporate tax rate will decrease to 35.6% from April 2014 following the abolition of a special reconstruction corporation tax (a surcharge for rebuilding earthquake hit areas). The possibility of further reductions to the corporate tax rate is currently being discussed and, as COLI products represent a tax-efficient way to purchase protection, savings and retirement preparation solutions, any further reductions to the corporate rate may have an impact on COLI sales.
- ***Change in market shares distribution channels***: SMEs are increasingly expecting a higher level of advice and service from insurance companies and distribution channels. Intermediaries and the bancassurance channel (including large securities houses) in Japan are expected to benefit from the market shift towards greater professionalism since intermediaries and banks are generally capable of offering a higher level of expertise and more comprehensive customer support than tied agents. The market share of intermediaries in the COLI segment has grown progressively over the past five years (up from 47% in 2008 to 52% in 2012) and bancassurance (including large securities houses) is expected to expand over the next few years, while the market share of tied agents is decreasing (source: NN).

INVESTMENT MANAGEMENT

European investment management industry

Introduction

As of 31 December 2011, the European investment management industry managed EUR 13.8 trillion in assets, representing 31% of the assets managed in the global investment management industry. In 2011, the ratio of AuM to European GDP was 99%. EFAMA estimated that by the end of 2012, the size of the European investment management industry had increased to EUR 15.4 trillion (source: EFAMA Asset Management Report, June 2013).

Size and products

The European investment management industry can be split into two product categories. The first category consists of investment funds, which are pools of assets with specified investment objectives and policies in which investors may purchase units. By pooling savings from various customers, investment funds offer investors a number of advantages, particularly in terms of risk diversification and reduced costs from economies of scale. In the second category, discretionary mandates, investment managers have the authority to manage assets on behalf of investors on a segregated basis from other customer assets, in accordance with a pre-defined set of rules and principles and based on an agreement between the investment manager and the investor.

The discretionary mandates represented approximately 52.8% (EUR 7.3 trillion measured by AuM) of the European investment management industry as of 31 December 2011, while investment funds represented 47.2% (EUR 6.5 trillion measured by AuM). The share of investment funds decreased from 51.3% in 2007 to 47.2% in 2011 (source: EFAMA Asset Management Report, June 2013).

Distribution

The customer categories serviced by the European investment management industry in 2011 comprised retail investors (25% of total AuM) and institutional investors (75% of total AuM), the latter in turn consisting of insurance companies (42%), pension funds (33%), banks (3%) and others (foundations, charities, endowments, corporates, governments, central banks, sovereign wealth funds and other asset managers) (22%) (source: EFAMA Asset Management Report, June 2013).

The distribution of discretionary mandates to institutional customers can be characterised as business-to-business activity, where there is a direct relationship between the investment manager and the institutional customer. The distribution of investment funds takes place mainly through intermediaries. In continental Europe, banks are the primary distribution channel of investment funds. Traditionally, banks only actively offered funds managed by in-house fund management subsidiaries, whereas in the last ten to 15 years these distribution models have become less rigid. Many banks have opted for a guided or open architecture structure, in which they offer investment funds of several investment managers. For investment managers, this has provided the opportunity to offer funds outside their affiliated distribution channel (source: Lipper, 2010).

The distribution of European investment funds can be categorised into (a) affiliated or captive distribution (38%), (b) third party distribution (37%) and (c) direct or institutional distribution (25%). The distribution landscape is relatively heterogeneous throughout Europe, with different channels dominating the market in different countries (source: Cerulli, 2013).

Competitive landscape

The investment management industry in Europe is highly competitive, with about 2,000 firms offering approximately 37,000 funds. After a period in which the number of funds increased strongly, fund closures and mergers have outnumbered the launches of new funds in recent years, leading to a net reduction of funds (in the June 2013 YTD period the net reduction was 456 funds, compared with a net reduction of 852 funds in 2012). The market share of the top 25 fund providers, however, has remained practically unchanged at approximately 50% in recent years (source: Lipper FMI Statistics).

The table below sets out the breakdown for leading investment management companies in Europe in terms of percentage of total AuM as at 31 December 2012, 2011 and 2010.

Market shares European fund market

	as at 31 December		
	2012	**2011**	**2010**
Blackrock	5.4%	5.2%	4.8%
Amundi Group	3.8%	3.8%	4.3%
Deutsche Asset & Wealth Management	3.3%	3.5%	3.5%
J.P. Morgan Asset Management	3.0%	3.5%	3.2%
UBS AG	2.6%	2.7%	2.7%

(source: Lipper FMI Statistics)

NN Investment Partners was the fortieth largest investment management company (measured by AuM) with a market share measured by AuM of 0.7% in the year 2012 (source: Lipper FMI Statistics).

NN Investment Partners is primarily active in captive asset management. The table below sets out the breakdown for leading captive asset management companies in Europe in terms of percentage of total AuM as at 31 December 2012, 2011 and 2010.

Market shares European captive asset management market			
	2012	2011	2010
AXA Group	1.97%	1.65%	1.75%
Prudential Plc	1.44%	1.29%	1.18%
Allianz Global Investors	1.42%	1.42%	1.55%
Aviva Group	1.16%	1.17%	1.15%
KBC Bank and Insurance Holding Company	0.87%	0.97%	1.03%

(source: Lipper FMI Statistics)

NN Investment Partners was the eighth largest captive asset management company (measured by AuM) with a market share measured by AuM of 0.7% in the year 2012 (source: Lipper FMI Statistics).

Dutch investment management industry

Introduction

As at 31 December 2011, the Dutch investment management industry managed EUR 474 billion in assets, which represented 3.4% of the total assets managed by the European investment management industry. As at 31 December 2010, the total value of assets managed in the Dutch investment management industry was EUR 492 billion. In 2011, the ratio of AuM to Dutch GDP was 78% (source: EFAMA Asset Management Report, June 2013).

Size and products

The discretionary mandates represented approximately 89% (EUR 410 billion AuM) of the Dutch investment management industry as at 31 December 2011, while investment funds represented 11% (EUR 64 billion AuM) (source: EFAMA Asset Management Report, June 2013).

Advisory and fiduciary services for institutional customers form a third product category on the Dutch investment management market, in addition to discretionary mandates and investment funds. Fiduciary management is an approach to investment management that involves an asset owner, such as a pension fund or insurance company, appointing a third party to manage the total assets of the asset owner on an integrated basis. This is undertaken via a combination of strategic advice, tactical asset allocation, manager selection and monitoring, portfolio management, administration and reporting. The significance of fiduciary management in the Dutch investment management industry is related to the significant size of pension funds in the market (source: Handboek voor Pensioenfondsen, Pensioen Bestuur & Management).

Distribution

The customer categories on the Dutch market serviced by the investment management industry comprise institutional investors and retail customers. For investment funds, customers are institutional investors and retail customers. The institutional investors are insurance companies, pension funds, banks and others. The Dutch pension funds are among the largest pension funds in the world, investing worldwide and applying a wide range of modern investment techniques. Retail banking is the dominant distribution channel of investment funds, representing around 80% of Dutch fund assets. The other 20% is distributed among insurance companies (via wrappers), private banks and brokers. The largest banks in the Netherlands, ABN AMRO Bank N.V., ING Bank and Rabobank, have opted for guided architecture (sources: EFAMA Asset Management Report, June 2013; PwC UCITS Fund Distribution, September 2012; Roland Berger Strategy Consultants website, March 2013).

Competitive landscape

The table below sets out the breakdown by market shares of the leading Dutch investment funds in terms of percentage of total AuM as at 31 December 2012. (Figures for 2011 and 2010 are not available.)

Market shares	
	as at 31 December 2012
NN Investment Partners	13.8%
Robeco	12.4%
Aegon	10.0%
BNP Paribas IP	7.4%
SNS Asset Management	6.6%

(source: AF Advisors)

Industry trends and developments

- ***Institutionalisation of the customer base***: In the European investment management industry, the market share of institutional customers on investment managers' books increased from 69% in 2007 to 75% in 2011. Since the financial crisis, there has been a gradual decrease in investment managers securing business directly from retail customers. This development reflects a growing tendency towards the institutionalisation of the customer base of the investment management industry. Retail customers have continued to make use of insurance companies and pension funds to fund their retirement long-term savings needs, whilst reducing their direct exposure to investment risks. Simultaneously, insurance companies and pension funds have increasingly used the expertise of the investment management industry to manage the assets entrusted to them (source: EFAMA Asset Management Report, June 2013).

- ***Amendments to the UCITS regulations***: The EU Undertakings for Collective Investment in Transferable Securities (**UCITS**) Directive was adopted in 1985 with the purpose of harmonising the domestic regulations on retail investment funds in the EU and to facilitate cross-border activities. On the back of this directive, investment funds that operate within this regime can be offered throughout the EU (only a relatively light notification procedure needs to be followed) on the basis of the authorisation form from the fund's home state. The latest update of the UCITS Directive, UCITS IV, came into force in 2011 and aims to improve investor information and increase efficiency in the fund management industry, ultimately leading to lower costs for investors. Another update of the UCITS Directive, UCITS V, which will increase protection of investors to a higher standard, is currently under discussion (source: PwC Note UCITS IV).

- ***Increased market share of cross-border funds***: The UCITS Directive has allowed investment managers to operate more internationally and facilitated the cross-border exchange of investment management products. For investment managers, it is efficient to distribute funds domiciled in one country across the border to other distribution countries. Increasingly, the UCITS Directive passport has not just been seen as a European fund passport, but also as a global one. UCITS are recognised and distributed outside of the EEA in Asia, Latin America, Central and Eastern Europe and the Middle East. As a consequence of the growth of guided and open-architecture fund distribution, and supported by the international recognition of the UCITS Directive, the market share of funds offered on a cross-border basis has increased at the expense of funds that are domiciled locally. Fund managers manage funds that are domiciled in another country for efficiency reasons. The combined market share of the two largest cross-border domiciles for fund distribution (Luxembourg and Ireland) has increased from 28.3% in 2004 to 40.8% as of June 2013 (source: EFAMA Asset Management Report, June 2013; Lipper FMI Statistics).

- ***Implementation of AIFMD***: The global financial crisis has led to new financial regulations at the European level. The primary example of new regulations affecting the investment management industry is the Alternative Investment Fund Managers Directive (**AIFMD**) which came into force in July 2013. Funds that are not regulated under the UCITS Directive are regulated under AIFMD. AIFMD regulates the manager (**AIFM**) of alternative investment funds (**AIF**) by subjecting the AIFM to prudential supervision. AIFMD also requires the AIFM to obtain a licence for management of the AIF. Although the primary focus of AIFMD is to regulate the AIFM, fund operations will be indirectly affected due to requirements for leverage limits, fund risk profiles and portfolio liquidity. AIFMD will also bring opportunities, as it will provide fund managers with a passport to manage and market AIFs throughout the EU (source: KPMG Note AIFMD).

- ***New regulations offer new business opportunities***: While investment management companies must on the one hand adjust to comply with the new regulations, in some cases new regulations also offer new opportunities for investment managers. For example, in the past, banks were the main source of long-term financing and the facilitation of loans. The withdrawal from certain areas of capital markets is creating opportunities for asset managers to fill the gaps, as other investors, such as pension funds and insurance companies, are showing an interest in providing such loans and can use asset managers to manage such portfolios. The EC intends to facilitate this transition with new regulations regarding European long-term investment funds. Moreover, the new regulation for European insurers, Solvency II, is creating an opportunity for asset managers with the capability of fulfilling such customer needs with new products and services (sources: EC press release; KPMG Note Solvency II).

- ***Passive management increases market share***: In the past five years, passive management (through a combination of index funds and exchange traded funds) has become more popular with institutional and retail investors. On the European fund market, passive management has gained a market share of 9% in June 2013 (compared with 5% in June 2008) at the expense of active investment management (source: Lipper FMI Statistics).
- ***Prohibition of rebate payments***: In the Netherlands and the United Kingdom, the legislation has gone beyond what is required under the MiFID by banning rebate payments from fund management companies to distributors from 1 January 2013 (United Kingdom) and 1 January 2014 (the Netherlands). This prohibition on rebates will force fund distributors to change their business models in order to charge customers directly. The legislation may also affect the fund management companies, as in their current business model, fund management companies pay part of their management fee to the distributor of the product. At the European level, the next version of the MiFID Directive, MiFID II, is also expected, which will presumably include new measures affecting rebate payments from fund management companies to distributors.

BANK

Dutch banking industry

The size of the Dutch banking sector measured by assets relative to the Dutch GDP has shrunk considerably since its peak in 2007 largely due to the impact of the economic and financial crisis. In 2008, ABN AMRO Bank N.V. was nationalised and ING Groep received state aid. On 1 February 2013, SNS REAAL N.V., the fourth largest bank, was nationalised. In August 2013 the Dutch government announced that it expects to sell its stake in ABN AMRO Bank N.V., preferably through an initial public offering in 2015.

The current economic and global financial markets remain challenging for the Dutch banking sector, which continues to deal with the aftermath of the economic crisis (source: DNB). The aggregate total balance sheets of Dutch banks amounted to EUR 2,493 billion as at 31 December 2012. Despite its reduction in size, the Netherlands had the sixth largest banking industry in Europe by total assets behind the United Kingdom, Germany, France, Italy and Spain (source: ECB 2012).

Main banking products

Residential mortgages

The total amount of outstanding residential mortgage loans in the Netherlands was EUR 672 billion as at 31 December 2012 compared with EUR 671 billion as at 31 December 2011. The Dutch residential mortgage market was the fifth largest market in Europe by volume behind the United Kingdom, Germany, France and Spain in 2011 (source: European Mortgage Foundation). The outstanding mortgage loans as a percentage of GDP in the Netherlands was 111% in 2011, making the Netherlands the country with the highest mortgage debt in the eurozone (source: CBS).

Bank annuities

Tax-efficient bank saving products, also referred to as bank annuities (*banksparen*), were introduced in the Netherlands in 2008. Bank annuities are used for mortgage, pension and severance-related savings. Until 2008, money could only be saved in a tax-advantaged way through an insurance policy. Since the adoption of new legislation in 2008, bank annuities have the same fiscal benefits as insured savings products but do not have a life insurance component. Bank annuities have caused a downward trend in the sale of new individual life products and have become an attractive alternative source of funding for banks. The total amount of bank annuities increased to EUR 6,825 million at 31 December 2012 from EUR 5,363 million at 31 December 2011 (source: IG&H 2013).

Consumer deposits and savings

At 31 December 2012, the total savings and deposits of private individuals in the Netherlands increased to EUR 330 billion from EUR 312 billion at 31 December 2011 (2010: EUR 297 billion) (source: CBS).

The average savings of Dutch households have doubled during the past 30 years. After the start of the financial crisis, banks sought alternative financing sources, including in the form of savings deposits. The current total savings in the Netherlands equals approximately half of the total outstanding residential mortgage loans (source: CBS).

Distribution

In the Netherlands products were most commonly distributed through the direct channel, including branches, and for mortgages by intermediaries.

Competitive landscape

In 2012 the banking sector in the Netherlands was dominated by three large banks: ING Bank (excluding NN Bank) (33.5% share of assets), Rabobank (30.2% share of assets) and ABN AMRO Bank N.V. (15.8% share of assets) (source: ECB annual reports). Together, these banks have a joint market share of more than 80% in many segments. Market concentration has increased in recent years (source: DNB 2012).

Industry trends and developments

- ***Legislation to temper interest-only and high LTV lending***: As of January 2013, certain measures were implemented to dampen interest-only and high LTV mortgage lending in order to help stabilise the Dutch housing and mortgage market, and reduce the government deficit. These measures included, among other things, that new mortgage loans must be repaid on an annuity or linear basis within 30 years to qualify for tax relief on mortgage interest and that the maximum loan-to-value ratio has been set at 105% from 2013 and will be reduced annually to 100% in 2018 (source: CBS). Tax conditions have also changed for mortgage-related capital insurances. As of 1 January 2013, the favourable tax regime for mortgage-related capital insurances no longer applies and new mortgage-related capital insurances are taxed as part of the individual's income from savings and investments (source: DNB).
- ***Tempered growth in sales of bank annuities***: Since 2008, insurance companies have expanded into bank annuity products, driven by declining sales of individual life insurance products. Building on their existing mortgage banks, insurers have launched bank annuity products and expanded their scope into other banking products. However, the growth in sales of bank annuities slowed in 2012 (27%) compared with 2011 (39%) (source: IG&H 2013 – Nationaal Bankspaaronderzoek). This may be explained by a reduction in the number of active life insurance policies that were converted into bank annuity schemes. In addition, the Dutch government abolished the favourable tax treatment of severance payments as of 1 January 2014. New fiscal regulation for pensions may further temper growth of bank annuities sales, as the legislature will lower the maximum amount people can deduct from their taxable wealth to save for their pension per year.

10. BUSINESS

OVERVIEW

NN is an insurance and investment management group with leading positions in life and non-life insurance in the Netherlands, a strong life and pensions presence in a number of other European markets (such as Poland, Hungary and Romania) and in Japan and a growing position in Turkey. NN's insurance business is active in mature markets in Western Europe and Japan as well as growth markets in CEE and Turkey. NN's investment management business offers its products and services globally through regional centres in several countries across Europe, the United States, the Middle East and Asia, with the Netherlands as its main investment management hub. In the Netherlands, NN was the largest life insurer and third largest non-life insurer (excluding healthcare) measured by GWP in 2012 (source: DNB). In Europe, NN was in 2012 the largest provider of life insurance in Romania and Hungary, had top-four positions in the Czech Republic and Greece, in each case measured by GWP, and was the largest provider of mandatory pensions in Poland, the Slovak Republic, Romania and Hungary and voluntary pensions in Romania, in each case measured by AuM (see "—*Business Segments*" for individual sources). NN offers a comprehensive range of retirement, life insurance, non-life insurance, investment management and, in the Netherlands, banking services to its retail, SME, corporate and institutional customers.

The product offering and the type of customers serviced within each country varies. See "—*Business Segments*" for further information on NN's specific product offerings and the type of customers serviced in each relevant jurisdiction. NN predominantly utilises a multi-channel approach to distribute its products and service its customers, allowing it to tailor the marketing and distribution of its products across different market and customer segments. NN commits significant resources throughout its businesses to: (a) ensure strong partnerships with brokers, independent agents and banks, including ING Bank, (b) strengthen its tied agents network in most of the countries outside of the Netherlands and (c) build up direct channel capabilities. In 2013, NN recorded GWP of EUR 9,530 million and an operating result (before tax) from ongoing business of EUR 905 million. As at 31 December 2013, NN's investment management business had EUR 174,124 million of AuM.

NN is organised along the following seven segments:

- ***Netherlands Life***: NN's life insurance business in the Netherlands is NN's largest segment. It accounted for 55% of NN's total operating result (before tax) from ongoing business excluding the Other segment (see "—*Other*") in 2013. NN offers a range of group life and individual life insurance products. NN's life insurance business is organised along the following two product lines: Pensions and Individual Life Closed Block. Within NN's Pensions product line, NN offers group life products and individual pension products. Group life products are life insurance products under which employers offer certain pension and other insurance benefits to their employees, typically as part of larger benefit packages. NN's group life products are primarily group pension products. NN's group pension products include general account products, separate account products and unit-linked products. NN's Individual Life Closed Block product line primarily consists of the closed block operation of the individual life portfolios (comprising a range of discontinued products sold prior to 2012) of: Nationale-Nederlanden, RVS and ING Verzekeringen Retail (**IVR**) (formerly Postbank Insurance). Approximately 40% of the policies in the individual life closed block are expected to still be in-force by 2025. The remaining part of NN's Individual Life Closed Block product line relates to the sale of individual life insurance policies in the form of new term life insurance and immediate annuity products introduced in 2012. NN's group life products are distributed through actuarial consulting firms (acting as advisers to mid- and large-sized corporations) and through independent agents and brokers (acting as advisers to SMEs). NN's individual life products are primarily distributed through intermediaries (such as independent agents and brokers) and, to a lesser extent, through bancassurance (by ING Bank) and NN's direct channel. NN also provides pension administration and management services to company- and industry-wide pension funds under its AZL brand. In the Netherlands, NN was the second largest provider of group life insurance and the largest provider of individual life insurance measured by GWP with a market share of 20.6% and 19.9%, respectively, in 2012 (source: DNB). In 2013, the Netherlands Life segment recorded EUR 3,240 million GWP, representing 34% of NN's total GWP in 2013, and EUR 224 million of new business (measured by APE), representing 18% of NN's total APE in 2013. As at 31 December 2013, the equity allocated to the Netherlands Life segment was EUR 9,491 million.

- ***Netherlands Non-life***: NN's non-life insurance business in the Netherlands (including NN's wholly owned insurance brokers Zicht and Mandema) accounted for 6% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. NN offers a broad range of non-life insurance products under the NN brand and the ING brand. Under the Movir brand, NN offers individual disability insurance to specific target groups amongst medical and business professionals. NN's non-life insurance products can be categorised as follows: (a) income, comprising disability and accident (D&A) and travel insurance, and (b) property and casualty (P&C), comprising fire, motor and transport insurance and other insurances. These products are offered to retail, self-employed, SME and corporate customers in stand-alone as well as bundled form. NN's non-life insurance products are distributed primarily through regular brokers and, to a lesser extent, through mandated brokers, NN's direct channel and bancassurance (by ING Bank). In the Netherlands, NN (including Movir) was the third largest provider of non-life insurance products (excluding healthcare insurance) measured by GWP with a market share of 10.1% in 2012. In D&A insurance, NN (including Movir) was the second largest provider measured by GWP with a market share of 19.1% in 2012. In P&C insurance, NN was the fourth largest provider measured by GWP with a market share of 7.3% in 2012 (source: DNB). Movir by itself was the second largest provider of individual disability insurance in the Netherlands measured by GWP with a market share of 13.1% in 2012 (source: Verbond van Verzekeraars). In 2013, the Netherlands Non-life segment recorded EUR 1,582 million GWP, representing 17% of NN's total GWP in 2013. As at 31 December 2013, the equity allocated to the Netherlands Non-life segment was EUR 734 million.

- ***Insurance Europe***: NN's European insurance business (outside the Netherlands), accounted for 16% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. This segment comprises NN's business in CEE (which includes, for purposes of the Insurance Europe segment, Poland, the Czech Republic, the Slovak Republic, Romania, Hungary, Bulgaria and Turkey) and in the rest of Europe (which includes, for the purposes of the Insurance Europe segment, Belgium, Spain, Greece and Luxembourg). NN primarily offers life insurance (which includes healthcare insurance in Greece) through Insurance Europe. NN also offers pension products, in particular mandatory and voluntary pension funds in CEE and Spain as well as non-life insurance products in Belgium and Spain. The life insurance and pension products are offered to retail, self-employed, SME and corporate customers and the non-life insurance products are offered to retail customers and corporate customers. In Europe, NN was in 2012 the largest provider of life insurance in Romania and Hungary and had top-four positions in the Czech Republic and Greece, in each case measured by GWP, and NN was the largest provider of mandatory pensions in Poland, the Slovak Republic, Romania and Hungary and voluntary pensions in Romania, in each case measured by AuM (see "—*Business Segments*" for individual sources). NN's Insurance Europe distribution channels have been adapted to accommodate distribution trends and country-specific dynamics, with tied agents being the principal distribution channel in most CEE countries and bancassurance as the sole distribution channel in Belgium. In 2013, the Insurance Europe segment recorded EUR 2,344 million insurance GWP, representing 25% of NN's total GWP in 2013, and EUR 510 million of new business (measured by APE), representing 42% of NN's total APE in 2013, which was primarily attributable to the voluntary pension market in Turkey, the life insurance market in Poland and Spain and Belgium as a whole. As at 31 December 2013, the equity allocated to the Insurance Europe segment was EUR 1,898 million.

- ***Japan Life***: NN's life insurance business in Japan accounted for 13% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. In Japan, NN primarily offers a range of COLI (corporate-owned life insurance) products to SMEs and owners and employees of SMEs through independent agents and bancassurance. COLI products are traditional life insurance policies with an average duration of nine years that a company, typically an SME, takes out on the lives of executives or employees, whereby the company is both the policyholder and the beneficiary of the policy. COLI products are designed to address the protection, savings and retirement preparation needs of SMEs and owners and employees of SMEs in a tax-efficient manner. In Japan, NN was the third largest provider of COLI products measured by APE with a market share of 9% in 2012 (source: NN). In 2013, the Japan Life segment recorded EUR 2,322 million GWP, representing 24% of NN's total GWP in 2013, and EUR 493 million of new business (measured by APE), representing 40% of NN's total APE in 2013. As at 31 December 2013, the equity allocated to the Japan Life segment was EUR 1,259 million.

- ***Investment Management***: NN's investment management business, which will be operating under the brand NN Investment Partners, accounted for 10% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. NN Investment Partners offers a wide variety of actively managed investment products and advisory services to retail and institutional customers in all major asset classes and investment styles. In addition, NN Investment Partners manages the assets of NN's insurance businesses. NN Investment Partners offers its products and services globally through regional centres in several countries across Europe, the United States, the Middle East and Asia, with the Netherlands as its main investment hub. In the Netherlands, NN Investment Partners was the largest investment management company measured by AuM with a market share of 13.8% in 2012 (source: AF Advisors). As at 31 December 2013, NN Investment Partners had EUR 174,124 million of AuM, of which EUR 74,857 million was managed for third party retail and institutional customers and the remaining EUR 99,267 million for the general account of NN's insurance businesses and NN's other affiliate business. As at 31 December 2013, the equity allocated to the Investment Management segment was EUR 359 million.

- ***Other***: This segment comprises the business of NN Bank and NN Re (NN's internal reinsurer), the result of the holding company and other results.

    - *NN Bank*: NN Bank offers a range of banking products to retail customers in the Netherlands. In addition, NN Bank coordinates the distribution of NN's individual life and retail non-life insurance products in the Netherlands to enable a comprehensive product offering to retail customers in the Netherlands. NN Bank distributes these products through intermediaries and NN's direct channel.

    - *NN Re*: NN Re is NN's internal reinsurer located in the Netherlands. NN Re primarily offers reinsurance to NN's insurance businesses. NN Re manages its risks through ceding excess insurance risk to external reinsurers and hedging (a major part of) its market risks. NN Re reinsures, amongst others, the minimum guarantee obligations of the Japan Closed Block VA and (part of) the life insurance business of NN Czech Republic, Nationale-Nederlanden Poland and NN Hungary. In the segment reporting, the results from the reinsurance arrangement regarding Japan Closed Block VA are reported under the Japan Closed Block VA segment and the results from certain reinsurance arrangements regarding the life insurance business of NN Czech Republic, Nationale-Nederlanden Poland and NN Hungary are reported under the Insurance Europe segment (whilst the rest of the NN Re results are reported under the Other segment).

    - *Result of the holding company*: the result of the holding company includes the interest paid on hybrids and debt, the amortisation of intangibles and the head office expenses that are not allocated to the business segments.

    - *Other results*: other results are results that are not allocated to the business segments, including (a) the results of claims and lawsuits (i) concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN in Mexico, which claim was settled in March 2014 and the costs of which are indemnified by ING Groep under the indemnification and allocation agreement; see "*—Material Agreements—Indemnification and allocation agreement*", and (ii) filed by former employees of an Argentinean subsidiary, whose employment was terminated as a result of the Republic of Argentina's nationalisation of the pension fund system, by some former clients of this subsidiary and by a few third parties, and (b) the results of Nationale-Nederlanden Overseas Finance and Investment Company in relation to a guarantee provided to the ILU with respect to two legacy insurance subsidiaries of the Issuer, Orion and L&O, see "*Risk Factors—Financial Reporting Risks— NN's technical reserves reflected in its IFRS financial statements to pay insurance and other claims, now and in the future, could prove inadequate, which could require that NN strengthen its reserves, which may have a material adverse effect on NN's results of operations and financial condition.*".

- ***Japan Closed Block VA***: This segment comprises NN's closed block single premium variable annuity (SPVA) individual life insurance portfolio in Japan. This portfolio consists of SPVA products with substantial minimum guarantee obligations sold predominantly from 2001 to 2009. In 2009, NN ceased the sale of these products and placed this portfolio in run-off. This portfolio has been classified as a closed block and is managed as a separate segment. The majority of the closed block SPVA portfolio is projected to run off relatively quickly due to the short-term maturity profile and short outstanding policy life of the SPVA products. Approximately 90% of all SPVA policies are expected to have matured by the end of 2019. NN Japan expects that most policyholders will elect to receive their maturity proceeds as a lump sum payment, but some may elect to receive their maturity proceeds in the form of an annuity. Based on NN Japan's recent experience, the percentage of customers electing an annuity is expected to be less than 10%. This segment also includes the results from the reinsurance of the minimum guarantee risk associated with this portfolio by NN Re. NN Re manages this risk through a hedging programme which seeks to (partially) offset market-related movements in the IFRS reserves, while simultaneously mitigating market-related impacts on the capital position of NN Re. As at 31 December 2013, the remaining AuM of the closed block SPVA portfolio were EUR 14,698 million. As at 31 December 2013, the equity allocated to the Japan Closed Block VA segment was EUR 1,236 million.

In addition to the segments described above, NN's consolidated financial information for the years ended and as at 31 December 2013, 2012 and 2011 as set out in this Prospectus contained one additional segment, Insurance Other. This segment comprised (a) the results from NN's interest in SulAmérica S.A. (**SulAmérica**), (b) the costs of the claims filed by the purchaser of certain Mexican subsidiaries of NN claiming that the financial condition of the subsidiaries was not accurately depicted and (c) corporate expenses of ING Groep allocated to NN. As from 1 January 2014, this segment ceased to exist, since (i) the remaining interest in SulAmérica was partly divested on 7 January 2014 and the remainder was distributed as a dividend by NN to ING Groep on 31 January 2014, (ii) the costs of the claims filed by the purchaser of certain Mexican subsidiaries are indemnified by ING Groep under the indemnification and allocation agreement; see "*—Material Agreements—Indemnification and allocation agreement*" and (iii) as from 1 January 2014 ING Groep no longer allocates corporate expenses to NN.

The tables below set out the breakdown by segment in terms of GWP, APE, operating result (before tax), technical reserves and allocated equity for the years ended/as at 31 December 2013, 2012 and 2011.

Financial indicators

	for the year ended/as at 31 December 2013				
	(unaudited)				
(*in millions of EUR*)	**GWP**	**APE**	**Operating result (before tax)**	**Technical reserves**	**Allocated equity**
Netherlands Life	3,240 (1)	224	709	64,901	9,491
Netherlands Non-life	1,582	-	79	3,323	734
Insurance Europe	2,344 (2)	510	199	19,484	1,898
Japan Life	2,322	493	162	7,233	1,259
Investment Management	-	-	131	-	359
Other	98	-	-373	847	-1,104 (3)
Eliminations	-61	-	-	-	-
Subtotal ongoing business	**9,525**	**1,227**	**905**	**95,788**	**12,637**
Japan Closed Block VA	7	-	80	15,763	1,236
Subtotal	**9,531**	**1,227**	**986**	**111,551**	**13,873**
Insurance Other	-	-	-18	-	186
Eliminations	-1	-	-	-	-
Total	**9,530**	**1,227**	**968**	**111,551**	**14,059** (4)

(1) Pertains to life insurance and pensions.

(2) Pertains to life insurance only and excludes pensions and insurance products for which NN acts as a distributor.

(3) The allocated equity of the Other segment mainly comprises the allocated equity of NN Bank (EUR 363 million) and NN Re (EUR 449 million), as well as the cash capital position of the holding company (EUR 1,363 million) and net other assets of the holding company (EUR 560 million) minus the corporate debt (EUR 3,892 million).

(4) This number excludes the equity allocated to the held for sale entities (EUR 168 million) and the corporate debt (EUR 3,892 million).

Financial indicators

for the year ended/as at 31 December 2012

(unaudited)

(*in millions of EUR*)	**GWP**	**APE**	**Operating result (before tax)**	**Technical reserves**	**Allocated equity**
Netherlands Life	3,622 (1)	257	623	67,730	10,424
Netherlands Non-life	1,640	-	103	3,309	555
Insurance Europe	2,830 (2)	526	219	21,655	2,082
Japan Life	2,588	570	196	7,999	1,523
Investment Management	-	-	109	-	365
Other	84	-	-399	874	-4.601 (3)
Eliminations	-50	-	-	-	-
Subtotal ongoing business	**10,713**	**1,353**	**852**	**101,568**	**10,348**
Japan Closed Block VA	7	-	85	21,446	1,440
Subtotal	**10,720**	**1,353**	**937**	**123,013**	**11,788**
Insurance Other	-	-	-22	-	366
Eliminations	-14	-	-	-	-
Total	**10,705**	**1,353**	**915**	**123,013**	**12,154** (4)

(1) Pertains to life insurance and pensions.

(2) Pertains to life insurance only and excludes pensions and insurance products for which NN acts as a distributor.

(3) The allocated equity of the Other segment mainly comprises the allocated equity of NN Bank (EUR 32 million) and NN Re (EUR 491 million), as well as net other assets of the holding company (EUR 662 million) minus the corporate debt (EUR 5,874 million).

(4) This number excludes the equity allocated to the held for sale entities (EUR 17,111 million), the corporate debt (EUR 5,874 million) and the financial debt for the held for sale entities (EUR -2,842 million).

Financial indicators

for the year ended/as at 31 December 2011

(unaudited)

(*in millions of EUR*)	**GWP**	**APE**	**Operating result (before tax)**	**Technical reserves**	**Allocated equity**
Netherlands Life	4,303 (1)	369	768	64,876	10,049
Netherlands Non-life	1,608	-	186	3,236	458
Insurance Europe	3,231 (2)	490	266	20,428	1,720
Japan Life	2,104	574	119	8,096	1,369
Investment Management	-	-	124	-	423
Other	79	-	-313	942	-5,336 (3)
Eliminations	-44	-	-	-	-
Subtotal ongoing business	**11,281**	**1,433**	**1,150**	**95,578**	**8,683**
Japan Closed Block VA	20	1	91	24,105	987
Subtotal	**11,301**	**1,435**	**1,241**	**121,683**	**9,671**
Insurance Other	-	1	-28	-	394
Eliminations	-9	-	-	-	-
Total	**11,292**	**1,435**	**1,213**	**121,683**	**10,065** (4)

(1) Pertains to life insurance and pensions.

(2) Pertains to of life insurance only and excludes pensions and insurance products for which NN acts as a distributor.

(3) The allocated equity of the Other segment mainly comprises the allocated equity of NN Bank (EUR 14 million), NN Re (EUR 724 million) and NN's shareholding in SulAmérica, as well as net other assets of the holding company (EUR 320 million) minus the corporate debt (EUR 6,701 million).

(4) This number excludes the equity allocated to the held for sale entities (EUR 16,486 million), the corporate debt (EUR 6,701 million) and the financial debt for the held for sale entities (EUR -3,138 million).

STRENGTHS

NN's management (**Management**) believes that NN has the following strengths:

NN has a diversified platform, with a leading position in the Netherlands and a strong presence in a number of European markets and Japan

Management believes that NN Group is well diversified across different markets. This diversification means NN should be less affected by specific adverse regulatory or other developments in any one of the countries in which it operates, and allows NN to benefit from diversification in its earnings and cash generation, and in risk and capital management.

NN's experience and success in one market can be leveraged if, when and where appropriate across its businesses in other markets. This is evidenced, for example, by NN's establishment and development of greenfield life insurance and pension businesses in the period from 1991 to 2001, initially from the Netherlands, in all CEE countries except Turkey, and more recently by the sale of Dutch non-life products in Belgium.

Management believes that NN's diversified platform also offers an advantage in attracting and developing talented staff. NN actively develops its deep bench of talent, for example by job rotation and providing selected staff with international experience.

The Netherlands

NN maintains a leading position in the Netherlands, which is the fifth largest insurance market in Europe by GWP (source: DNB, Swiss Re). In the Dutch market in 2012, NN was the second largest provider of group life insurance, the largest provider of individual life insurance and the third largest provider of non-life insurance products (excluding healthcare insurance), in each case measured by GWP (source: DNB). In addition to a large customer base, its leading market position offers NN several scale advantages and synergies in its operations, procurement, marketing and the ability to attract and develop talented staff.

The Group's brand name NN is derived from Nationale-Nederlanden, a brand established over fifty years ago that generates the highest spontaneous brand awareness within the insurance retail market in the Netherlands. People associate it with safety, stability and security (source: Mindshare, Motivaction). By leveraging its connection to an established 'household' brand, NN believes it is better able to attract new customers across multiple product lines and develop and maintain long-term customer relationships with its customers, in a business where customer retention is an important driver of company value.

NN has developed a variety of business lines and distribution channels. The large customer base and its diversified platform offer NN the potential to cross-sell its products. Management believes that the diversified platform also allows NN to recognise customer behaviour shifts early and to develop strategies to benefit from opportunities in the Dutch market, as it has done in developing focused product strategies in the non-life insurance business and in developing new pension products to address the shift in customer preferences from defined benefit pension plans to defined contribution plans.

In 2012 NN was amongst the first to combine portfolios from its various individual life products into one centrally managed portfolio, with a large aggregate scale of approximately 3.5 million policies and EUR 26,133 million of technical reserves (which form the majority of the Individual Life Closed Block). NN has further adopted a focused programme to develop the specific skills required for managing these diverse portfolios in an efficient manner to optimise customer retention. Management believes that NN's early adoption of a centrally managed approach and development of specific skills allow it to capture the long-term value that these portfolios offer as they mature gradually through 2025. The scale of the combined portfolio is moreover considered a strategic advantage, as it offers the potential to manage this block of business towards lower unit costs.

Rest of Europe

NN maintains a strong position in the life insurance and pensions market in CEE (see "—*Business Segments*" for individual sources), which is part of the Insurance Europe segment. NN began these businesses as greenfield operations (except for Turkey) and through organic growth NN has developed an established customer base and local teams with broad experience and deep knowledge of the local markets.

NN entered the CEE markets when limited open distribution channels existed and has created its own tied agents sales force in each of its CEE markets. These sales forces are an important means to interact directly with customers and invest in long-term relationships, increasing customer satisfaction and retention, and NN has developed an in-house program to enhance the specific skills required to optimise the effectiveness and productivity of these sale forces. Over the years, customer buying behaviour evolved and NN now distributes via banks, internet and brokers as well. NN has bank distribution contracts in place with ING Bank in all CEE countries where ING Bank has retail operations and with several other banks across CEE (see "—*Business segments*"). Today NN operates a multi-access distribution platform, which management believes allows NN to address the specific needs of diverse groups of customers.

Management believes that NN's large customer base, deep knowledge of the local markets and multi-access distribution platform leave it well positioned to take advantage of higher growth in a region where the number of customers that buy pensions and life insurance, as well as their ability to invest larger amounts is expected to increase gradually in the future.

Japan

NN has a top three position measured by APE in the attractive COLI market (source: NN), a large segment of Japan's overall life insurance market. NN's Japanese sales support network has nationwide coverage, consists of long lasting relationships, and NN is a leading provider to independent agents (source: NN). NN has been active in the COLI segment since 1986 and has a track record of introducing products to meet evolving customer needs and a shifting regulatory landscape. NN believes its focus on the COLI business allows it to continue to rapidly respond to changing regulation and market dynamics.

Investment Management

NN Investment Partners has a track record of strong investment performance, which is reflected by a number of industry awards and prizes, for example funds research company Lipper awarded NN Investment Partners the title of best fund manager in the large group category for consistent outperformance over a three-year period in the Netherlands (2013). NN Investment Partners is also recognised within the first quartile of performance in the high yield segment and 43% of its funds had a four-star or five-star Morningstar rating as at 31 December 2013, compared to an industry average of 32.5%. In addition, NN Investment Partners has achieved significant scale in many of its asset classes and invested in building scalable infrastructure to support its global operations with almost all of its assets administered in one system, resulting in low expenses per AuM compared to peers. Management believes that this scalable platform, combined with NN Investment Partners' record of strong performance, positions NN Investment Partners well to expand its higher margin third party business.

NN maintains a strong balance sheet under a conservative regulatory regime

NN had an Insurance Groups Directive (**IGD**) capital ratio of 257% as at 31 December 2013 and had reduced the financial leverage of the Issuer to EUR 3.9 billion as at 31 December 2013, which equals a financial leverage ratio of 26%. For these purposes financial leverage is calculated as outstanding senior and subordinated debt, that is issued to capitalise NN's subsidiaries, minus current assets and liabilities over and above the cash capital contingency. This is in line with NN's objective for a single A financial strength rating. Management believes that NN's strong balance sheet positions it well to absorb market volatility. This is important for NN's clients as they are assured of NN's financial solidity, and allows NN the strategic flexibility to grow its businesses where new profits can be achieved.

NN's Dutch subsidiaries are regulated under the Dutch prudential regime, which is more conservative than most European regimes in that available capital under Solvency I is calculated on a marked-to-market basis (including an Ultimate Forward Rate which is a method allowed by DNB that gradually extrapolates the discount curve for future commitments to an ultimate forward rate of 4.2% from year 20 to year 60), meaning that assets and liabilities are reported on market value basis rather than at historical cost. In addition, NN's reinsurance entity, NN Re Netherlands, has a marked-to-market regulatory balance sheet. As a result, in total, 75% of NN's overall balance sheet is already regulated on a marked-to-market basis. Management believes that this provides transparency to stakeholders such as supervisors, investors and clients, and has allowed Management to accumulate significant experience in managing its business and balance sheet on a marked-to-market basis reflecting the current low interest rate environment and expected regulatory changes; a similar regime will come into force for its other European business under Solvency II.

NN has an experienced and diverse leadership team

NN is managed by a disciplined, highly motivated and experienced team, focused on improving the business and generating cash in the coming years. The members of NN's senior leadership team have various nationalities and have occupied significant and varied roles in the financial services industry, with on average over 20 years of experience in the financial services industry. The team comprises a strong combination of new members and members who have longer-term experience with NN and its current shareholder ING Groep, and with a deep knowledge of the NN business units. The team has developed NN's strategy and is committed to its execution and implementation going forward.

STRATEGY

NN's strategic objectives are to generate capital and improve earnings. Management seeks to achieve these objectives via transformation in the Netherlands, profitable growth and operating leverage in other segments and diligent management of its Japan Closed Block VA.

NN intends to operationally improve and selectively grow its insurance businesses in the Netherlands by:

- executing its multiyear programme to achieve expense reductions through process rationalisation and product redesign;
- improving capital efficiency through the reduction of liability risks in pensions and releasing capital from its maturing policies in its closed block individual life business;
- pursuing opportunities to gradually move to higher yielding assets, leading to an optimisation of the risk/ return profile in relation to NN's liabilities, consistent with its prudent risk management policies;
- restoring underwriting profitability in the non-life insurance business through restructuring of certain product portfolios; and
- leveraging its market position to selectively capture new business opportunities in the market, such as growth in defined contribution pensions.

In other segments, NN is focused on utilising its well established platforms to capture profitable growth opportunities and benefit from operational leverage:

- In Insurance Europe, NN aims to achieve profitable growth driven by market growth in markets where it operates, improvements in productivity of its distribution channels, and disciplined cost management to achieve operating leverage.
- In Japan Life, NN will seek to benefit from operating leverage from growth underpinned by the recovery of the Japanese economy, by penetrating deeper its bancassurance network and further penetrating the SME customer segment.
- NN Investment Partners aims to grow its third party business using its existing scalable platform and by broadening its distribution relationships, while benefiting from operational leverage.

NN's strategy for its Japan Closed Block VA is aimed at capital release over time following the run-off profile of the portfolio, while limiting the impacts of volatile markets through hedging.

HISTORY

NN's history dates to 1845. In that year Assurantie Maatschappij tegen Brandschade N.V., later renamed De Nederlanden van 1845 N.V. (**De Nederlanden**), commenced operations. De Nederlanden specialised in fire insurance. Shortly after its foundation, De Nederlanden expanded abroad, and through multiple acquisitions, became an all-lines insurance company in 1925. World War II made it almost impossible for De Nederlanden to operate its business. After the war, De Nederlanden and other insurance companies played an important role in the economic recovery and reconstruction of the Netherlands by providing financing. During the post-war years De Nederlanden expanded quickly due to economic growth in the Netherlands and through acquisitions.

The Nationale Levensverzekering-Bank N.V. (**Nationale**) also prospered during the post-war years. Nationale was established in 1863 and specialised in life insurance with a focus on the Dutch domestic market. In 1916, Nationale added non-life insurance to its product portfolio. In 1932, Nationale and De Nederlanden entered into cooperation with respect to group life insurance. Like De Nederlanden, Nationale's business was significantly affected by World War II and was also instrumental in the post-war reconstruction. In 1956, Nationale expanded its non-life portfolio by acquiring insurance company Tiel-Utrecht. This acquisition made Nationale, for many years the largest life insurer, the second largest non-life insurer, and as a result the largest insurance company overall in the Netherlands at that time.

In 1963, De Nederlanden and Nationale merged and formed Nationale-Nederlanden. This merger was in line with increased consolidation in the insurance industry and enabled the companies to remain competitive under changing market circumstances. From the 1960s to the 1980s, Nationale-Nederlanden extensively pursued acquisitions throughout the world, including major acquisitions in the United States, and started new operations in Europe and Asia.

In 1991, Nationale-Nederlanden merged with NMB Postbank Groep to form Internationale Nederlanden Groep (ING) after the legal restrictions on mergers between insurers and banks were lifted in the Netherlands in 1990. Since 1991, ING has developed from being a Dutch company with some international business to a multinational with Dutch roots. This was achieved through a mixture of organic growth as well as various large acquisitions. All of Nationale-Nederlanden's businesses in Europe and Japan were greenfield operations (except for Turkey and Belgium). These businesses were set up in emerging markets, such as Poland, the Czech Republic and Hungary, as well as in developed markets, such as Luxembourg and Japan. In the United States, Nationale-Nederlanden acquired the life operations of U.S. insurance companies ReliaStar and Aetna in 2000. These acquisitions also substantially increased the size and scope of ING's insurance activities in developing markets, making ING the largest international insurer in Latin America and the second largest international insurer in Asia.

In 2008 and 2009, as a consequence of the financial crisis, ING Groep, like other major financial institutions in the Netherlands, received aid from the Dutch State. As a condition to receiving approval from the EC for such state aid, ING Groep was required to develop and submit a restructuring plan to the EC, comprising inter alia the divestment of the insurance and investment management business, including the Issuer and its subsidiaries. The 2009 Restructuring Plan was approved by the EC in November 2009. Following the 2009 Restructuring Plan, the insurance and investment management businesses of ING (including NN) were operationally separated from ING as of 31 December 2010.

In November 2012, ING Groep and the Dutch State reached an agreement with the EC on certain amendments to the 2009 Restructuring Plan which were set out in the 2012 Restructuring Plan. The amendments extended the time horizon, increased the flexibility for the completion of divestments and adjusted other commitments set forth in the 2009 Restructuring Plan, in light of market conditions, the economic climate and more stringent regulation.

Pursuant to the 2009 and 2012 Restructuring Plans, ING divested a number of businesses around the world from 2011 to 2013, including divestments of insurance and investment management businesses in the United States, Latin America and Asia/Pacific (other than Japan). See "*—Material Agreements—Acquisitions and disposals*" for further information.

In May 2013, ING Groep divested approximately 29% of its shareholding (which was indirectly held through NN) in ING U.S., its U.S.-based retirement, investment and insurance business, through an initial public offering in accordance with the 2012 Restructuring Plan. In preparation for a stand-alone future of NN, the interest in ING U.S. held by NN was transferred to ING Groep as at 30 September 2013.

In July 2013, part of the operations of WestlandUtrecht Bank N.V. (**WUB**), comprising mainly specific mortgage, savings, investments and consumer credit activities, were transferred to NN Bank, in accordance with the 2012 Restructuring Plan.

In November 2013, ING Groep and the Dutch State reached an agreement with the EC on certain amendments to the 2012 Restructuring Plan which were set out in the 2013 Restructuring Plan. The 2013 Restructuring Plan accelerated the divestment timeline for NN by two years, as a result of which ING Groep is required to divest more than 50% of its shareholding in the Issuer before 31 December 2015 and the remaining interest before 31 December 2016. Pursuant to the 2013 Restructuring Plan, the Japan Life and Japan Closed Block VA businesses are permitted to be divested in line with the divestment timeline for NN and are thus permitted to remain part of NN. The requirement for ING Groep to divest more than 50% of its interest in the Issuer includes the requirement to (a) no longer have a majority of representatives on the Management Board and (b) deconsolidate the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules. See "*Supervision and Regulation—EC Restructuring Plan*" for further information about the EC Restructuring Plan.

BUSINESS SEGMENTS

Netherlands Life

General

In 2012, NN was the second largest provider of group life insurance and the largest provider of individual life insurance in the Netherlands measured by GWP, with a market share of 20.6% and 19.9%, respectively (source: DNB). In 2013, the Netherlands Life segment recorded EUR 3,240 million GWP, consisting of EUR 1,494 million in group life insurance and EUR 1,746 million in individual life insurance, representing 16% and 18%, respectively, of NN's total GWP in 2013, and EUR 224 million of new business (measured by APE), representing 18% of NN's total APE in 2013. In 2013, the Netherlands Life segment had an operating result (before tax) of EUR 709 million, representing 55% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. As at 31 December 2013, the equity allocated to the Netherlands Life segment was EUR 9,491 million.

The Netherlands Life segment includes AZL and Parcom Capital Management. AZL provides pension administration and management services to primarily mid-sized and large company- and industry-wide pension funds. Parcom Capital Management is a captive mid-market private equity firm active in the Benelux region through which NN invests part of its general account assets. As at 31 December 2013, Parcom Capital Management had EUR 1,107 million of AuM.

Products

The life insurance products offered by NN in the Netherlands range from standardised insurance products to tailor-made and sophisticated insurance products with a particular focus on group pensions. Life insurance products can be characterised as either traditional policies or unit-linked policies. Traditional policies are those products that have benefits primarily based on a guaranteed interest rate, sometimes combined with profit-sharing to the extent that certain thresholds are met. Thus, under traditional policies, NN bears the investment risk. Unit-linked policies have an investment basis and are mostly flexible in options and guarantees. Under pure unit-linked policies, the investment risk is borne by the policyholder. Unit-linked policies can also guarantee a minimum investment return or minimum accumulation to the policyholder at maturity, including death benefit. Further, NN provides hybrid forms of group pension products that combine elements of traditional and unit-linked life insurances within a single contract.

Life insurance products can also be characterised as general account or separate account products. For general account products, the underlying assets are invested in NN's general account and thus not attributable to a specific policyholder or liability. Within the general account, NN bears the investment risks related to assets backing the liability obligations. For separate account products, NN establishes and maintains a separate investment account to which funds are allocated in line with the relevant policy. Such investment account is thus separated from NN's general account and the investment risk is borne by the policyholder, although guarantees apply.

NN's life insurance business is organised along the following two product lines: Pensions and Individual Life Closed Block.

The table below sets out the breakdown by product line in terms of GWP and APE for the years ended 31 December 2013, 2012 and 2011.

GWP and APE

	for the year ended 31 December					
	2013		**2012**		**2011**	
			(unaudited)			
(in millions of EUR)	**GWP**	**APE**	**GWP**	**APE**	**GWP**	**APE**
Pensions	1,959	189	2,110	201	2,391	271
Individual Life Closed Block	1,281	35	1,512	56	1,911	98
Total	**3,240**	**224**	**3,622**	**257**	**4,303**	**369**

Pensions

Within NN's Pensions product line, NN offers group life products and individual pension products. Group life products are life insurance products under which employers offer certain pension and other insurance benefits to their employees, typically as part of larger benefit packages. NN's group life products are primarily group pension products. NN's group pension products include general account products, separate account products and unit-linked products.

For its corporate customers, NN provides integrated and full-service pension products, including separate account group contracts. Historically, NN has built up a substantial separate account portfolio. For this portfolio NN actively manages the renewal process in order to reduce risk, improve capital usage and shift the asset mix towards lower risk portfolios with a significant portion of the assets matched to the liabilities.

For large corporate customers and SMEs, NN provides group pension products that are historically predominantly based on defined benefits; however, this is changing. These defined benefit plans are contracts with single or recurring premiums which give a guaranteed benefit. Some of these products contain the option of profit-sharing based on investment return. NN also increasingly provides group pension products based on defined contribution with single or recurring premiums, in response to the shift from defined benefit to defined contribution in the pension market (see "*Industry Overview—The Netherlands—Life insurance market—Industry trends and developments*"). The benefits are based on investment returns on specified funds. Further, NN provides hybrid forms of group pension products which combine elements of traditional and unit-linked life insurances within a single contract. NN focuses on supporting its existing and new SME customers in shifting from expensive long-term interest guaranteed defined benefit contracts to more standardised, defined benefit and defined contribution products with reduced costs and better customer service. As at 31 December 2013, NN's Pensions product line had EUR 38,013 million of technical reserves and consisted of approximately 1.8 million policies.

The offering of NN's Pensions product line in the Netherlands includes the following:

Group life products

- ***General account products***:
    - *General account defined benefit products*: NN's general account defined benefit group pension products are traditional insurance products based on lifelong guaranteed pension payments with recurring premiums with or without profit-sharing. These products also provide an option for additional single premiums for indexation and back services (for periods, such as sabbaticals and study leave, that do not contribute toward a customer's pension). These defined benefit pensions are insured by lifelong annuities. Lifelong annuities are sold to insure old-age pensions in defined benefit plans.
    - *Pension fund buyouts*: NN selectively offers companies the option of selling their pension liabilities to NN, within NN's strict capital and return thresholds. This allows companies to remove pension liabilities from their balance sheets and decrease future balance sheet volatility. Pension liabilities are insured by means of a single premium payment. Since these are customised contracts, specific contract features are tailor-made for each customer. Although NN has not acquired any pension funds during the last three years, NN continues to offer this product on a selective basis.

In 2013, the general account products accounted for 19% of Netherlands Life's GWP and 24% of Netherlands Life's APE. As at 31 December 2013, the general account products accounted for 49% of the technical reserves of the Pensions product line.

- ***Separate account products***:
    - *Separate account defined benefit products*: NN's separate account defined benefit group pensions are insurance products that provide a lifelong guaranteed pension right that accrues during the contract period (typically five years) and benefits based on an (implied) guaranteed interest rate, profit-sharing and a selective choice of investment strategies for the assets underlying the contracts.

In 2013, the separate account products accounted for 18% of Netherlands Life's GWP and 33% of Netherlands Life's APE. As at 31 December 2013, the separate account products accounted for 27% of the technical reserves of the Pensions product line.

- ***Unit-linked products***:
    - *Defined contribution (limited guarantees)*: NN's unit-linked defined contribution pensions are unit-linked life insurance products with recurring premiums. NN also offers defined contribution products with limited guarantees of investment returns.
    - *Defined contribution (PPI)*: NN, together with AZL and NN Investment Partners, administers a premium pension institution (*premie pensioen instelling*) (**PPI**). A PPI is a pension vehicle in the form of a separate legal entity that, like a pension fund or pension insurer, can operate a defined contribution pension scheme on a separate account basis during the pension accrual phase in multiple countries across Europe from a single cross-border vehicle with only one supervisory authority. When an employee reaches retirement age, the PPI transfers the accrued capital to a pension insurer at the employee's discretion to make the pension payments. Employers that wish to insure any additional risks (such as survivors' pensions) can do this through the PPI. However, since regulations prohibit the PPI from carrying these risks itself, the PPI transfers these additional risks to NN or a relevant other insurance company that insures these risks.

In 2013, the unit-linked products accounted for 9% of Netherlands Life's GWP and 15% of Netherlands Life's APE. As at 31 December 2013, the unit-linked products accounted for 6% of the technical reserves of the Pensions product line.

NN provides the following supplementary insurance options to its group life insurance products:

- ***Survivors' protection***: NN's survivors' pensions provide insurance for survivors against the risk of death, either lifelong, temporarily until the pension date or temporarily as from the pension date or on a risk basis. NN's lifelong or temporary survivorship annuity is a form of traditional life insurance that pays death benefits with a savings feature and with guaranteed returns for the beneficiary. A risk-based survivors' pension can be either traditional or unit-linked, paying death benefits with no savings or investment features and with guaranteed returns for the beneficiary. Both lifelong or temporary survivors' pensions and risk-based survivors' pensions can have recurring or single premiums.
- ***Disability protection***: NN's disability protection pays benefits but has no savings or investment features, and is a risk-based annuity. Disability protection is sold as a rider to both defined benefit and defined contribution plans and can have recurring or single premiums.

Individual pension products

- ***Traditional individual pensions***: NN's traditional individual pensions consists of predominantly pensions savings products for small businesses and directors and principal shareholders.
- ***Unit-linked individual pensions***: NN's unit-linked individual pensions consists of predominantly pensions savings products for small businesses and directors and principal shareholders. Approximately 50% of this portfolio is expected to have matured by 2016.
- ***Roll-over products***: NN's roll-over products or immediate annuity products are traditional life insurance products with guaranteed returns offered to retiring employees. Under an immediate annuity, the employee pays a single premium, in return for which NN agrees to make annual payments to the employee beginning immediately.

In 2013, the individual pension products accounted for 14% of Netherlands Life's GWP and 13% of Netherlands Life's APE. As at 31 December 2013, the individual pension products accounted for 18% of the technical reserves of the Pensions product line.

Individual Life Closed Block

NN's Individual Life Closed Block product line primarily consists of the closed block operation of the individual life portfolios (comprising a range of discontinued products sold prior to 2012) of: Nationale-Nederlanden, RVS and IVR (former Postbank Insurance). In 2012, NN decided to cease the sale of most individual life insurance products, consolidate the operations under the brand Nationale-Nederlanden and place the old portfolios in run-off, following the rapid decline of individual life sales and the shift by many customers to bank annuities (see "*Industry Overview—The Netherlands—Life insurance market—Industry trends and developments*"). Taking into account the expected run-off, the closed block portfolio is managed to reduce costs and move to a more flexible cost base, simplify the product portfolio and the operational process, release capital for NN as well as improve customer experience. Approximately 40% of the policies in the individual life closed block are expected to still be in-force by 2025. As at 31 December 2013, the closed block had EUR 26,114 million of technical reserves and consisted of approximately 3.5 million policies.

The remaining part of NN's Individual Life Closed Block product line relates to the sale of individual life insurance products in the form of new term life insurance and immediate annuity products introduced in 2012, with EUR 46 million of technical reserves and consisting of approximately 13 thousand policies as at 31 December 2013.

Closed block policies

NN's individual life closed block operation consists of the following types of portfolios:

- ***General account portfolio***:
  - *Funeral*: NN's funeral policies are traditional life insurance products with guaranteed insured amounts to cover the cost of the insured's funeral. The amounts insured are usually relatively low and there is lifelong coverage, with premiums paid until the age of 60 or 65.
  - *Pension-related endowment*: NN's traditional savings pension-related life insurance products are traditional individual savings plans with a single premium payment and benefits based on a guaranteed interest rate and including (non-guaranteed) profit-sharing. These policies were sometimes sold as deferred annuities carrying certain tax advantages for policyholders. The annual payments received by the policyholder are subject to a tax levy.
  - *Mortgage-related endowment*: NN's traditional savings mortgage-related life insurance products are traditional individual savings plans with recurring or single premium payments and benefits based on a guaranteed interest rate and (non-guaranteed) profit-sharing. These policies were sold in combination with mortgage loans.
  - *Traditional savings life insurance*: NN's traditional life insurance products are traditional individual savings plans with recurring or single premium payments and benefits based on a guaranteed interest rate and (non-guaranteed) profit-sharing. These policies were sold for a wide variety of savings purposes (for example to finance college tuition or repayment of loans).
  - *Term life and immediate annuities*: NN's individual life closed block portfolio includes term life and immediate annuities products sold prior to 2012.

In 2013, the general account portfolio accounted for 30% of Netherlands Life's GWP. As at 31 December 2013, the general account portfolio accounted for 82% of the technical reserves of the Individual Life Closed Block product line.

- ***Unit-linked portfolio***:
  - *Unit-linked/universal life savings*: NN's universal life and unit-linked capital policies provide savings from recurring or single premium payments. The value of the capital is based on the value of the investments at the chosen end date, with the possibility of guaranteeing a minimum return under certain conditions. Universal life and unit-linked savings can be regular, mortgage-related or annuity-related.

In 2013, the unit-linked portfolio accounted for 8% of Netherlands Life's GWP. As at 31 December 2013, NN had approximately 400,000 unit-linked policies that were still in-force and the unit-linked portfolio accounted for 18% of the technical reserves of the Individual Life Closed Block product line. Approximately 46% of the in-force policies were taken out with a view to receiving an annuity at maturity, 16% for the purpose of funding a mortgage loan redemption, and 38% for purposes not known to NN.

In line with guidelines of AFM and DNB, NN and its intermediaries are actively approaching the individual unit-linked policyholders in writing or by telephone to inform policyholders of the prospects of the policy for its remaining term. This includes providing advice as to whether the policy is still suited to policyholders' individual needs and enables policyholders to, amongst others, continue the policy (unchanged), switch to alternative products or surrender the policy.

Active policies

NN's general account individual life insurance product offering consists of the following:

- ***Term life insurance***: NN's term life insurances (introduced in 2012) are traditional life insurance policies that pay death benefits without a savings or investment feature. NN's term life insurance products are mainly sold in combination with mortgage loans or investment accounts, and generally require recurring premium payments.

- ***Immediate annuities***: NN's immediate annuities (introduced in 2012) are traditional life insurance products with guaranteed returns for the customer. Under an immediate annuity, the annuitant pays a single premium, in return for which NN agrees to make lifelong annual payments to the annuitant beginning immediately. NN's immediate annuities are mainly sold to customers whose traditional life savings products are maturing.

In 2013, the active policies accounted for 2% of Netherlands Life's GWP and 16% of Netherlands Life's APE. As at 31 December 2013, the active policies accounted for close to 0% of the technical reserves of the Individual Life Closed Block product line.

AZL

AZL provides pension administration and management services primarily to mid-sized and large company- and industry-wide pension funds, with respect to defined benefit as well as defined contribution pension schemes, in the Netherlands. AZL also advises pension funds in relation to actuarial, legal and pension matters and on how to communicate pension-related matters to employers and employees. Since 2012, AZL (together with NN's life insurance business and NN Investment Partners) also offers PPI for defined contribution pension schemes for employers. AZL provides the pension administration platform for the PPI. As at 31 December 2013, AZL arranges the administration of 58 companies and industry-wide pension funds in the Netherlands. AZL recorded EUR 45 million of fee income in 2013.

Distribution

NN's Pension products are distributed through actuarial consulting firms that act as advisers to mid- and large-sized corporations (43% of Netherlands Life's group life APE in 2013) and through independent agents and brokers that act as advisers to SMEs (jointly 57% of Netherlands Life's group life APE in 2013).

NN's active individual life products are primarily distributed through intermediaries, such as independent agents and brokers (84% of Netherlands Life's individual life APE in 2013) and, to a lesser extent, through bancassurance, by ING Bank (with 268 branches) (6% of Netherlands Life's individual life APE in 2013), and NN's direct channel which is taking an increasingly important share (10% of Netherlands Life's individual life APE in 2013). The exclusive distribution agreement between NN and ING Bank is in place until 2022.

NN's wholly owned subsidiaries, Zicht and Mandema, are important distributors of NN's life insurance products in the Netherlands. Zicht and Mandema each act as broker for NN's life insurance business as well as for other insurance companies operating in the Dutch life insurance market. Their result is included in the Netherlands Non-life segment.

Netherlands Non-life

General

NN (including Movir) was the third largest provider of non-life insurance products (excluding healthcare insurance) in the Netherlands measured by GWP with a market share of 10.1% in 2012 (source: DNB). In 2013, the Netherlands Non-life segment recorded EUR 1,582 million GWP, representing 17% of NN's total GWP in 2013. In 2013, the Netherlands Non-life segment had an operating result (before tax) of EUR 79 million (including NN's wholly-owned insurance brokers Zicht and Mandema), representing 6% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. As at 31 December 2013, the equity allocated to the Netherlands Non-life segment was EUR 734 million. As at 31 December 2013, the Netherlands Non-life segment's had EUR 3,323 million of technical reserves.

NN offers a broad range of non-life products under the NN brand and the ING brand. Under the Movir brand, NN offers individual disability insurance to specific target groups amongst medical and business professionals. Movir by itself was the second largest provider of individual disability insurance in the Netherlands measured by GWP, with a market share of 13.1% in 2012. The total individual disability insurance market recorded EUR 1.5 billion of GWP in 2012 (source: Verbond van Verzekeraars). Further, Movir was recognised as an industry leader for the third consecutive year in 2012 (source: Association of Financial Advisers).

Products

NN offers a broad range of non-life products to retail, self-employed, SME and corporate customers in stand-alone as well as bundled form, with a focus on offering insurance bundles. NN's non-life products can be categorised as follows: (a) income, comprising disability and accident (D&A) and travel insurance, and (b) property and casualty (P&C), comprising fire, motor and transport insurance and other insurances. In D&A insurance, NN (including Movir) was the second largest provider measured by GWP with a market share of 19.1% in 2012. In P&C insurance, NN was the fourth largest provider measured by GWP with a market share of 7.3% in 2012 (source: DNB).

The table below sets out the breakdown by product category of non-life insurance products in terms of GWP for the years ended 31 December 2013, 2012 and 2011.

GWP

	for the year ended 31 December		
(in millions of EUR)	**2013**	**2012**	**2011**
		(unaudited)	
Income	700	743	726
P&C			
Fire (1)	350	367	371
Motor	339	329	313
Transport	23	24	23
Other	169	177	175
Total	**1,582**	**1,640**	**1,608**

(1) Including property damage, other natural forces and engineering policies.

NN's non-life insurance product offering consists of the following:

- ***Income***: NN's income insurance policies can be divided into individual and group disability and accident insurance policies. NN's individual disability and accident policies provide coverage to retail customers and self-employed persons for loss of income caused by accidents and illness (both physical and mental illness) with monthly payments based on a fixed sum, generally until the age of 65 or retirement age. Under the Movir brand, NN offers individual disability and accident insurance policies to medical and business professionals. NN's group disability insurance policies provide long-term coverage for mandatory salary payments to employees on paid sick leave during incapacity caused by disability or absenteeism. The duration of the coverage depends on the type of product and ranges from two to 12 years. NN's group accident insurance policies pay out a fixed amount in the event of serious bodily injury caused by an accident. NN also offers travel insurance policies, which are reported under the income product category. In 2013, the income insurance policies accounted for 44% of Netherlands Non-life's GWP. As at 31 December 2013, the income insurance policies accounted for 72% of Netherlands Non-life's technical reserves.

- ***Fire***: NN's fire policies provide coverage for a variety of property risks including fire, storm and burglary. Coverage is available for buildings, contents and business continuity. Coverage on commercial policies is usually provided on the basis of specified risks, with certain exceptions such as flood damage. Private coverage is provided on both a single-risk and multi-risk basis, with multi-risk policies providing coverage either for loss or damage to dwellings and damage to personal goods. NN's engineering policies provide coverage for losses caused by the breakdown of information technology, and for fire and theft or risks related to construction activities, including for third party liability and property damage. In 2013, the fire policies accounted for 22% of Netherlands Non-life's GWP. As at 31 December 2013, the fire policies accounted for 6% of Netherlands Non-life's technical reserves.

- ***Motor***: NN's motor policies provide third party liability coverage for motor vehicles, commercial fleets and agricultural and construction motorised vehicles, including property damage and bodily injury, as well as coverage for theft, fire and collision damage. Dutch law requires that coverage for third party liability be maintained for each licensed motor vehicle. Most of NN's motor insurance policies are offered in modular form, which enables policyholders to determine the characteristics of their coverage. In 2013, the motor policies accounted for 21% of Netherlands Non-life's GWP. As at 31 December 2013, the motor policies accounted for 13% of Netherlands Non-life's technical reserves.
- ***Transport***: NN's transport policies provide coverage for third party liabilities and cargo. In 2013, the transport policies accounted for 1% of Netherlands Non-life's GWP. As at 31 December 2013, the transport policies accounted for close to 0% of Netherlands Non-life's technical reserves.
- ***Other***: NN also offers other non-life insurance products, in particular third party liability policies and legal expenses policies, as well as events insurance. In 2013, the other non-life policies accounted for 11% of Netherlands Non-life's GWP. As at 31 December 2013, the other non-life policies accounted for 9% of Netherlands Non-life's technical reserves.

Distribution

NN distributes its non-life insurance products primarily through regular brokers (including banks, such as Rabobank, on an intermediary basis) (65% of Netherlands Non-life's GWP in 2013) and, to a lesser extent, through mandated brokers (19% of Netherlands Non-life's GWP in 2013), NN's direct channel (6% of Netherlands Non-life's GWP in 2013) and bancassurance (10% of Netherlands Non-life's GWP in 2013) by ING Bank (in the Netherlands with 268 branches and until April 2014 ING Bank distributes motor insurance products of the Netherlands Non-life segment in Belgium with 725 branches). The exclusive distribution agreement between NN and ING Bank Netherlands is in place until 2022.

Since April 2014, NN has distributed motor insurance products of the Netherlands Non-life segment to retail customers in Belgium directly through NN Belgium. NN intends to extend this offering by the end of 2014 to include fire, third party liability and legal aid insurance policies.

NN's wholly owned subsidiaries, Zicht and Mandema, are important distributors of NN's non-life insurance products in the Netherlands. Zicht and Mandema each act as a regular broker and mandated broker for NN's non-life insurance business as well as for other insurance companies operating in the Dutch non-life insurance market. As mandated brokers for NN's non-life insurance business, Zicht and Mandema sell non-life insurance products under their own brands, but underwritten by NN.

Insurance Europe

General

NN's Insurance Europe business comprises NN's business in CEE (which includes, for the purposes of the Insurance Europe segment, Poland, the Czech Republic, the Slovak Republic, Romania, Hungary, Bulgaria and Turkey) and in the rest of Europe (which includes, for the purposes of the Insurance Europe segment, Belgium, Spain, Greece and Luxembourg). The countries in which NN is active are a mixture of mature and growth markets. In Europe, NN was in 2012 the largest provider of life insurance in Romania and Hungary and had top-four positions in the Czech Republic and Greece, in each case measured by GWP, and NN was the largest provider of mandatory pensions in Poland, the Slovak Republic, Romania and Hungary and voluntary pensions in Romania, in each case measured by AuM.

In 2013, the Insurance Europe segment recorded EUR 2,344 million life insurance GWP, representing 25% of NN's total GWP in 2013. As at 31 December 2013, the pension funds offered in the Insurance Europe segment had EUR 22,825 million of AuM. The Insurance Europe segment recorded EUR 510 million of new business (measured by APE) in 2013, representing 42% of NN's total APE in 2013, which was primarily attributable to the voluntary pension market in Turkey, the life insurance market in Poland, and Spain and Belgium as a whole. The Insurance Europe segment had an operating result (before tax) of EUR 199 million in 2013, representing 16% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. As at 31 December 2013, the Insurance Europe segment's allocated equity was EUR 1,898 million and its technical reserves were EUR 19,484 million.

The following three tables set out the breakdown by country in terms of GWP, percentage of Insurance Europe's total GWP, AuM, APE, percentage of Insurance Europe's total APE, operating result (before tax), percentage of the Insurance Europe segment's total operating result (before tax) and allocated equity for the years ended/as at 31 December 2013, 2012 and 2011.

Financial indicators

for the year ended/as at 31 December 2013

(unaudited)

(in millions of EUR / % of total)	**GWP** [1]			**AuM** [3]	**APE**		**Operating result (before tax)**		**Allocated equity**
	Life	**Non-life**		**Pensions**					
	EUR		*%*	*EUR*	*EUR*	*%*	*EUR*	*%*	*EUR*
CEE									
Poland	483	-	21%	17,538	105	21%	111	56%	373
Czech Republic	207	-	9%	1,032	33	6%	21	11%	127
Slovak Republic	79	-	3%	1,130	23	5%	12	6%	74
Romania	123	-	5%	1,258	32	6%	11	5%	86
Hungary	231	-	10%	471	23	5%	10	5%	125
Bulgaria	8	-	0%	352	11	2%	-2	-1%	-16
Turkey	27 [2]	-	1%	472	136	27%	-14	-7%	86
Rest of Europe									
Belgium	410	54	20%	-	42	8%	41	20%	553
Spain	443	23	20%	572	64	13%	18	9%	393
Greece	232	-	10%	-	26	5%	-11	-5%	56
Luxembourg	24	-	1%	-	15	3%	5	3%	39
Other [4]							-2		4
Total	**2,267**	**77**	**100%**	**22,825**	**510**	**100%**	**199**	**100%**	**1,898**

[1] Excluding pensions and insurance products for which the relevant NN entities act as a distributor for third parties.

[2] Including non-life riders.

[3] The numbers shown under AuM are client balances which exclude IFRS shareholder's equity related to the respective pension businesses and include the assets under administration.

[4] This concerns a dormant entity in the Ukraine and an entity in Hungary that provides regional actuarial services to NN's businesses in CEE.

Financial indicators

for the year ended/as at 31 December 2012

(unaudited)

(in millions of EUR / % of total)	**GWP (1)**			**AuM (4)**	**APE**		**Operating result (before tax)**		**Allocated equity**
	Life	**Non-life**		**Pensions**					
	EUR		*%*	*EUR*	*EUR*	*%*	*EUR*	*%*	*EUR*
CEE									
Poland	421	-	15%	15,882	79	15%	109	50%	363
Czech Republic	348	1 (2)	12%	978	53	10%	37	17%	238
Slovak Republic	79	-	3%	1,085	20	4%	14	6%	90
Romania	118	-	4%	885	27	5%	12	5%	86
Hungary	220	-	8%	384	27	5%	-2	-1%	117
Bulgaria	7	-	0%	280	7	1%	-3	-1%	-14
Turkey	23 (3)	-	1%	464	92	17%	-9	-4%	104
Rest of Europe									
Belgium	730	48	27%	-	80	15%	31	14%	601
Spain	390	23	15%	535	64	12%	28	13%	405
Greece	307	-	11%	-	29	6%	-2	-1%	48
Luxembourg	116	-	4%	-	49	9%	4	2%	46
Other (5)							-1	0%	-2
Total	**2,759**	**72**	**100%**	**20,493**	**526**	**100%**	**219**	**100%**	**2,082**

(1) Excluding pensions and insurance products for which the relevant NN entities act as a distributor for third parties.

(2) This concerns former healthcare insurance business which was closed in 2012.

(3) Including non-life riders.

(4) The numbers shown under AuM are client balances which exclude IFRS shareholder's equity related to the respective pension businesses and include the assets under administration.

(5) This concerns a dormant entity in the Ukraine and an entity in Hungary that provides regional actuarial services to NN's businesses in CEE.

Financial indicators

	for the year ended/as at 31 December 2011								
	(unaudited)								
(in millions of EUR / % of total)	**GWP (1)**			**AuM (3)**	**APE**		**Operating result (before tax)**		**Allocated equity**
	Life	**Non-life**		**Pensions**					
	EUR		*%*	*EUR*	*EUR*	*%*	*EUR*	*%*	*EUR*
CEE									
Poland	494	-	15%	12,121	104	21%	127	48%	347
Czech Republic	356	1 (2)	11%	950	33	7%	46	17%	214
Slovak Republic	80	-	2%	942	17	3%	15	6%	92
Romania	127	-	4%	613	26	5%	7	3%	78
Hungary	263	-	8%	313	39	8%	2	1%	223
Bulgaria	6	-	0%	224	8	2%	-2	-1%	-13
Turkey	17 (3)	-	1%	320	46	9%	-	0%	86
Rest of Europe									
Belgium	961	44	31%	-	103	21%	51	19%	584
Spain	491	22	16%	420	60	12%	23	9%	244
Greece	297	-	9%	-	25	5%	-	0%	-170
Luxembourg	72	-	2%	-	31	6%	8	3%	34
Other (4)							-11	-4%	-
Total	**3,164**	**66**	**100%**	**15,903**	**490**	**100%**	**266**	**100%**	**1,720**

(1) Excluding pensions and insurance products for which the relevant NN entities act as a distributor for third parties.
(2) This concerns former healthcare insurance business which was closed in 2012.
(3) Including non-life riders.
(4) The numbers shown under AuM are client balances which exclude IFRS shareholder's equity related to the respective pension businesses and include the assets under administration.
(5) This concerns a dormant entity in the Ukraine and an entity in Hungary that provides regional actuarial services to NN's businesses in CEE.

Products

NN primarily offers life insurance (which includes healthcare insurance for Greece) through Insurance Europe. NN's life insurance products consist of traditional life insurance products, unit-linked life insurance products and protection products. NN also offers pension products in CEE and Spain, in particular mandatory pension funds and voluntary pension funds. NN furthermore offers non-life insurance products in Belgium and Spain. The life insurance and pension products are primarily offered to retail customers and, to a lesser extent, to self-employed, SME and corporate customers. The non-life insurance products are offered to retail customers and corporate customers.

The table below sets out the product types offered by NN's Insurance Europe segment in each country as at the date of this Prospectus.

Product types offered by NN's Insurance Europe segment [1]

	Traditional		Unit-linked		Protection		Pensions		Non-life
	Annual	*Single*	*Annual*	*Single*	*Annual*	*Single*	*Mandatory*	*Voluntary*	
CEE									
Poland	X	-	X	X	X	-	X	X	-
Czech Republic	X	-	X	-	X	-	-	X	-
Slovak Republic	X	-	X	-	X	-		X	-
Romania	X	X	X	X	X	-	X	X	-
Hungary	X	-	X	X	X	-	X	X	-
Bulgaria	X	X	X	X	X	X	X	X	-
Turkey	-	-	-	-	X	X	-	X	-
Rest of Europe									
Belgium	X	X	-	X	X	X	-	-	X
Spain	X	X	X	X	X	-	-	X	X
Greece	X	-	X	X	X	-	-	-	-
Luxembourg	X	X	-	X	-	X	-	-	-

[1] The classification in product types for each country within the Insurance Europe segment follows the local classification regulations. This table excludes insurance products for which the relevant NN entities act as a distributor for third parties.

Distribution

NN's Insurance Europe distribution channels have been adapted to accommodate distribution trends and country-specific dynamics. Tied agents (37% of Insurance Europe's APE in 2013) are the principal distribution channel in most CEE countries and bancassurance is the sole distribution channel in Belgium. In several countries, such as Spain and Turkey, distribution through bancassurance (31% of Insurance Europe's APE in 2013), with ING Bank as NN's main bancassurance distributor, and brokers (28% of Insurance Europe's APE in 2013) is increasing. There are several distribution agreements in place between the different entities that form part of the Insurance Europe segment and the corresponding local ING Bank. NN has also started distribution through its direct channel in Poland, the Czech and Slovak Republics, Romania and Spain (4% of Insurance Europe's APE in 2013).

Central and Eastern Europe

Poland

General

Nationale-Nederlanden Poland commenced operations in 1994. In 2012, Nationale-Nederlanden Poland was the seventh largest provider of life insurance products measured by GWP with a market share of 4.9% and the largest provider of mandatory pension products measured by AuM with a market share of 23.8% in Poland (source: KNF). In addition, Nationale-Nederlanden Poland had a market share of 19.7% as a provider of voluntary pension products measured by AuM in 2012 in Poland (source: NN).

Products

Nationale-Nederlanden Poland offers traditional, unit-linked and protection life insurance and pension products to retail, SME and corporate customers with a focus on protection insurance policies.

Nationale-Nederlanden Poland's life insurance product offering consists of the following:

- ***Traditional policies***: recurring premium endowment products with and without guarantees;
- ***Unit-linked policies***: recurring and single premium medium- and long-term life insurance products which are offered in pure unit-linked and hybrid form with protection riders and voluntary pension fund products (IKE and IKZE) in the form of riders to unit-linked policies; and

- ***Protection policies***: recurring premium medium- and long-term life insurance products. These products can be combined with illness and disability policies or sold as a rider to unit-linked policies.

Nationale-Nederlanden Poland manages one mandatory and two voluntary pension funds, open to retail customers. The mandatory pension fund is an open pension fund (OPF) (see "*Industry Overview—Europe—Central and Eastern Europe—Poland*"). The voluntary pension funds consist of personal pension accounts (IKE) and individual pension protection accounts (IKZE). The pension funds are all on a defined contribution basis. The IKE and IKZE products are offered as a rider to Nationale-Nederlanden Poland's unit-linked policies. Customers are by law free to switch between mandatory as well as voluntary pension funds at any time (with a transfer fee in the first year for voluntary pension funds).

Distribution

Nationale-Nederlanden Poland distributes its life insurance products primarily through tied agents (46% of Nationale-Nederlanden Poland's APE in life insurance in 2013) and, to a lesser extent, brokers and independent agents (jointly 31% of Nationale-Nederlanden Poland's APE in life insurance in 2013) and bancassurance (22% of Nationale-Nederlanden Poland's APE in life insurance in 2013), amongst others by ING Bank Poland (with 439 branches), Raiffeisen Polbank (with 800 branches) and Alior Bank (with 804 branches). Direct channel capabilities are being developed by Nationale-Nederlanden Poland (1% of Nationale-Nederlanden Poland's APE in life insurance in 2013). The non-exclusive distribution agreement between Nationale-Nederlanden Poland and ING Bank Poland is in place until 2024 and the non-exclusive distribution agreements with Raiffeisen Polbank and Alior Bank have indefinite terms.

Czech Republic

General

NN Czech Republic commenced operations in 1992. In 2012, NN Czech Republic was the fourth largest provider of life insurance products measured by GWP and the sixth largest provider of voluntary pension funds measured by AuM, with a market share of 10.5% and 10%, respectively, in the Czech Republic (source: Czech Insurance Association and Association of Pension Funds Czech Republic).

NN Czech Republic's pension business includes a closed block voluntary pension fund, which was open to retail customers from 1995 to 2012 until the pension reform in 2012 that required NN Czech Republic to cease offering this voluntary pension fund to new customers as it did not comply with the new legislation (see "*Industry Overview—Europe—Central and Eastern Europe—Industry trends and developments*"). This voluntary pension fund provides pension insurance on a defined benefit basis. As at 31 December 2013, the AuM of the closed block fund were EUR 898 million.

Products

NN Czech Republic offers a range of life insurance products and a voluntary pension fund to retail customers. In addition, NN Czech Republic offers a wide range of riders which can be combined with each of NN Czech Republic's insurance products. NN Czech Republic focuses on traditional endowment policies, unit-linked policies and riders.

NN Czech Republic's life insurance product offering consists of the following:

- ***Traditional policies***: recurring premium endowment products and riders (primarily injury and healthcare-related);
- ***Unit-linked policies***: recurring premium unit-linked products and riders (primarily injury and healthcare-related); and
- ***Protection policies***: recurring premium accidental insurance, risk insurance, 55+ risk insurance, breast cancer insurance for women and riders (primarily injury and healthcare-related).

NN Czech Republic manages one voluntary pension fund on a defined contribution basis, which is open to retail customers. This fund provides a pension savings scheme in which customers can allocate their assets between several funds and are entitled to define the level of their contributions. The Czech State matches the employees' contributions, depending on the level of their contribution. Customers are by law free to switch between pension funds at any time.

Distribution

NN Czech Republic's life insurance products are primarily distributed through brokers (50% of NN Czech Republic's APE in life insurance in 2013) and tied agents (46% of NN Czech Republic's APE in life insurance in 2013). To a lesser extent, products are distributed through bancassurance (4% of NN Czech Republic's APE in life insurance in 2013), by GE Money Bank Czech Republic (with 252 branches). Direct channel capabilities are being developed by NN Czech Republic (1% of NN Czech Republic's APE in life insurance in 2013).

NN Czech Republic's voluntary pension fund is distributed through NN Czech Republic's direct channel (48% of NN Czech Republic's APE in pensions in 2013), tied agents (23% of NN Czech Republic's APE in pensions in 2013), bancassurance (18% of NN Czech Republic's APE in pensions in 2013), by GE Money Bank Czech Republic (with 258 branches), and brokers (11% of NN Czech Republic's APE in pensions in 2013).

The exclusive distribution agreement between NN Czech Republic and GE Money Bank Czech Republic is in place until November 2014. Discussions are ongoing between NN Czech Republic and GE Money Bank Czech Republic regarding a new distribution agreement.

Slovak Republic

General

NN Slovak Republic commenced operations in 1996. In 2012, NN Slovak Republic was the sixth largest provider of life insurance products measured by GWP with a market share of 6.7% and the fourth largest provider of mandatory (second pillar) pension funds (which were re-qualified into voluntary pension funds in 2013) and the largest provider of voluntary third pillar pension funds measured by AuM, with a market share of 11.0% and 37.3%, respectively, in the Slovak Republic (source: Slovak Insurance Association and Association of Pension Fund Management Companies).

Products

NN Slovak Republic offers a range of life insurance products to retail and corporate customers and voluntary pension funds to retail customers. In addition, NN Slovak Republic offers a wide range of riders that can be combined with each of NN Slovak Republic's insurance products. NN Slovak Republic focuses on offering its products in combination with riders.

NN Slovak Republic's life insurance product offering is comparable to the life insurance product offering of NN Czech Republic, with the exception of breast cancer insurance for women, which NN Slovak Republic does not offer.

NN Slovak Republic manages four voluntary second pillar pension funds (which qualified as mandatory pension funds until 2013) and four voluntary third pillar pension funds on a defined contribution basis, open to retail customers. The level of contribution in the voluntary second pillar pension funds, by the employee and the employer, is determined by law. The employee can also make additional contributions. The voluntary third pillar pension fund consists of individual savings accounts. The employee determines the level of contributions. Customers are by law free to switch between voluntary second pillar pension funds as well as voluntary third pillar pension funds at any time (with a transfer fee after the first year).

Distribution

NN Slovak Republic's life insurance products are predominantly distributed through tied agents (75% of NN Slovak Republic's APE in life insurance in 2013) and, to a small extent, through brokers (25% of NN Slovak Republic's APE in life insurance in 2013). Direct distribution channel capability is being developed by NN Slovak Republic.

NN Slovak Republic's voluntary second pillar pension funds are distributed through tied agents (17% of NN Slovak Republic's APE in second pillar pension funds in 2013), brokers (5% of NN Slovak Republic's APE in second pillar pension funds in 2013) and NN Slovak Republic's direct channel (1% of NN Slovak Republic's APE in second pillar pension funds in 2013). However, the majority of the participants in NN Slovak Republic's voluntary second pillar pension funds (77% of NN Slovak Republic's APE in second pillar pension funds in 2013) are allocated to NN Slovak Republic by the government.

NN Slovak Republic's voluntary third pillar pension funds are distributed through tied agents (95% of NN Slovak Republic's APE in third pillar pension fund in 2013), brokers (3% of NN Slovak Republic's APE in third pillar pension fund in 2013), NN Slovak Republic's direct channel (1% of NN Slovak Republic's APE in third pillar pension fund in 2013) and bancassurance (1% of NN Slovak Republic's APE in pensions in third pillar pension fund in 2013), by VUB Banka (with 247 branches) and, since 2014, by Sberbank (with 42 branches). The non-exclusive distribution agreements between NN Slovak Republic and each of VUB Banka and Sberbank, have an indefinite term.

Romania

General

NN Romania commenced operations in 1997. In 2012, NN Romania was the largest provider of life insurance products measured by GWP with a market share of 30.2% and the largest provider of mandatory pension funds as well as voluntary pension funds by AuM, with a market share of 38.0% and 46.4%, respectively, in Romania (source: Romanian Financial Supervisory Authority).

Products

NN Romania offers a range of life insurance products and mandatory and voluntary pension funds to retail, SME and corporate customers with a focus on traditional savings and protection products.

NN Romania's life insurance product offering consists of the following:

- ***Traditional policies***: recurring and single premium endowment policies and student savings products;
- ***Unit-linked policies***: recurring and single premium pure unit-linked investment and savings products with a protection component; and
- ***Protection policies***: recurring premium term life insurance, credit life insurance sold in combination with personal loans of ING Bank Romania, and riders (primarily healthcare-related, accidental death, disability and critical illness).

NN Romania manages one mandatory pension fund, open to retail customers, and two voluntary pension funds, open to retail and corporate customers, all on a defined contribution basis. The mandatory pension fund provides individual savings accounts. In 2013, the permitted level of contribution to mandatory pension funds was 4% of the employee's monthly gross salary. This percentage will by law increase by 0.5% per year until it reaches 6% in 2016. Voluntary pension funds provide individual savings accounts. The maximum level of contribution to voluntary pension funds is 15% of the employee's monthly gross salary. The contributions are partly tax-deductible. Customers are by law free to switch between mandatory and voluntary pension funds at any time (with a transfer fee in the first two years).

Distribution

NN Romania's life insurance products are primarily distributed through tied agents (74% of NN Romania's APE in life insurance in 2013) and, to a lesser extent, through bancassurance (26% of NN Romania's APE in life insurance in 2013), by ING Bank Romania (with 160 branches), Garanti Bank (with 78 branches) and Piraeus Bank (with 167 branches). The non-exclusive distribution agreement between NN Romania and ING Bank Romania is in place until 2024. The non-exclusive distribution agreements with Garanti Bank and Piraeus Bank have a yearly, automatically renewable term.

NN Romania's voluntary pensions are primarily distributed through tied agents (91% of NN Romania's APE in pensions in 2013) and, to a lesser extent, through brokers (8% of NN Romania's APE in pensions in 2013). NN Romania's direct channel is being developed for corporate customers. In the mandatory pension market, new entrants consist only of persons employed for the first time, as the great majority of eligible persons already participate in a private mandatory pension fund. Due to very low active sales, new entrants are predominantly allocated by the government on a random basis and in equal shares to all administrators, in accordance with Romanian law.

Hungary

General

NN Hungary commenced operations in 1991. In 2012, NN Hungary was the largest provider of life insurance products measured by GWP with a market share of 16.5%, the largest provider of mandatory pension funds and the sixth largest provider of voluntary pension funds measured by AuM, with a market share of 24.2% and 6.5%, respectively, in Hungary (source: Association of Hungarian Insurance Companies and Central Bank of Hungary).

NN Hungary's pension business includes a small closed block mandatory pension fund, which was open to retail customers from 1998 until the legislative reform of the mandatory pension fund system in 2011 (see "*Industry Overview—Europe—Central and Eastern Europe—Hungary—Pension industry*"). This mandatory pension fund provides individual capitalisation accounts on a defined contribution basis. Customers of mandatory pension funds are by law free to switch between mandatory pension funds at any time. As at 31 December 2013, the AuM of the closed block fund were EUR 243 million.

Products

NN Hungary offers a wide range of life insurance products and a voluntary pension fund to primarily retail customers.

NN Hungary's life insurance product offering consists of the following:

- ***Traditional policies***: recurring premium endowment policies with guarantees and accidental and healthcare insurance riders;
- ***Unit-linked policies***: recurring and single premium unit-linked insurance products and recurring premium variable annuity unit-linked insurances with a guaranteed minimum capital and accidental and healthcare insurance riders; and
- ***Protection policies***: recurring premium term life insurance policies, which are offered as stand-alone products as well as riders to traditional or unit-linked products with recurring premiums, and recurring premium whole-life insurance policies with guarantee features and accidental and healthcare insurance riders.

NN Hungary manages one voluntary pension fund on a defined contribution basis, open to retail customers. The voluntary pension fund provides individual savings accounts. Customers are by law free to switch between pension funds at any time. As a result of the pension reform in Hungary of 2011 (see "*Industry—Central and Eastern Europe (CEE)—Industry trends and developments*"), NN Hungary intends to stop offering pension products before the end of 2014.

NN Hungary also acts as distributor primarily for fire insurance policies of third party insurance companies to retail customers. In addition, NN Hungary acts as a distributor for third party banks, distributing banking products such as credit cards, bank accounts and building society products. In 2013, NN Hungary recorded EUR 537,000 of fee and commission income in relation to these distribution activities.

Distribution

NN Hungary distributes its life insurance products almost entirely through tied agents (91% of NN Hungary's APE in life insurance in 2013) and, to a small extent, through bancassurance (9% of NN Hungary's APE in life insurance in 2013), by GE Money Bank (with 101 branches), Erste Bank (with 143 branches) and Citi Bank (with 22 branches). The non-exclusive distribution agreements between NN Hungary and each of GE Money Bank, Erste Bank and Citi Bank all have an indefinite term.

NN Hungary's voluntary pension fund is solely distributed through tied agents (100% of NN Hungary's APE in pensions in 2013).

Bulgaria

General

NN Bulgaria commenced operations in 2001. In 2012, NN Bulgaria was the eighth largest provider of life insurance products measured by GWP with a market share of 5.0% (source: NN), the fifth largest provider of mandatory pension funds and the third largest provider of voluntary pension funds measured by AuM, with a market share of 9.8% and 11.8%, respectively, in Bulgaria (source: NN and Bulgarian Financial Supervision Commission).

Products

NN Bulgaria offers mandatory and voluntary pension funds, and, to a lesser extent, a range of life insurance products, to retail and corporate customers with a focus on retirement savings and protection products.

NN Bulgaria's life insurance product offering consists of the following:

- ***Traditional policies***: single and recurring premium endowment policies and key employees' retention insurances;
- ***Unit-linked policies***: single and recurring premium standardised products; and
- ***Protection policies***: single and recurring premium term life insurances and riders (accidental death, accidental disability, waiver of premium, dread disease, hospital benefit and surgical benefit) and recurring premium group credit life insurance sold in combination with mortgages and personal loans.

NN Bulgaria manages two mandatory pension funds and one voluntary pension fund on a defined contribution basis, open to retail customers with a focus on affluent retail customers. The mandatory pension funds consist of one universal pension fund and one occupational pension fund. The universal pension fund provides individual savings accounts. The occupational pension fund provides individual savings accounts to employees working in hazardous environments. The voluntary pension fund also provides individual accounts. Customers are by law free to switch between mandatory pension funds after a certain time period has elapsed and between voluntary funds at any time.

Distribution

NN Bulgaria distributes its life insurance products solely through tied agents (100% of NN Bulgaria's APE in life insurance in 2013). NN Bulgaria distributes its mandatory and voluntary pension funds also solely through tied agents (100% of NN Bulgaria's APE in pensions in 2013).

Turkey

General

In 2008, NN Turkey was acquired by NN from Oyak. In 2012, NN Turkey was the fifteenth largest provider of life insurance products measured by GWP and the sixth largest provider of voluntary pension products measured by AuM with a market share of 1.8% and 5.4%, respectively, in Turkey (source: Insurance Association of Turkey and Pension Monitoring Centre).

Products

NN Turkey offers protection and pension products to retail, SME and corporate customers with credit-linked term life insurance products and voluntary pension funds as its main products. In addition, NN Turkey offers, to a very small extent, non-life insurance riders to NN Turkey's life insurance and personal accident policies.

NN Turkey's life insurance product offering consists of the following:

- ***Protection policies***: single premium credit life insurance is sold in combination with personal loans of ING Bank Turkey, recurring premium group term life insurances, and personal accident and disability policies. The term life policies can be supplemented by accidental death, accidental disability, disability due to sickness, critical illness, and emergency healthcare policies. The personal accident policies (which include accidental death and accidental disability) can be supplemented by involuntary unemployment insurance and temporary disability insurance, and emergency healthcare insurance.

NN Turkey manages eight voluntary pension funds open to retail and corporate customers. In addition, NN Turkey manages one quasi-mandatory pension fund (a government contribution fund) for retail customers receiving a government contribution of 25% of national minimum gross salary. NN Turkey's voluntary pension funds portfolio consists of individual pension accounts and corporate pension accounts. The employee is free to determine the level of contribution. Customers are by law free to switch between voluntary pension funds at any time. All pension funds are on a defined contribution basis.

NN Turkey also offers non-life insurance riders to NN Turkey's life insurance and personal accident policies through reinsurance companies. These riders concern critical illness, emergency healthcare, involuntary unemployment and temporary disability.

Distribution

NN Turkey's life insurance products are mainly distributed through bancassurance (73% of NN Turkey's APE in life insurance in 2013), by ING Bank Turkey (with 324 branches), and, to a lesser extent, through brokers and independent agents (jointly 20% of NN Turkey's APE in life insurance in 2013). The exclusive distribution agreement between NN Turkey and ING Bank Turkey is in place until 2024.

NN Turkey distributes its voluntary pension funds primarily through brokers (56% of NN Turkey's APE in pensions in 2013) and bancassurance (42% of NN Turkey's APE in pensions in 2013), by ING Bank Turkey and Anadolu Bank (with 116 branches). The distribution agreement between NN Turkey and Anadolu Bank has an indefinite term.

Rest of Europe

Belgium

General

NN Belgium's history dates back to 1913. In 2001, ING merged the insurance companies De Vaderlandsche, RVS and BBL Insurance (which were each acquired by ING in the past) to form ING Insurance Belgium. In 2007, the broker and employee benefit business was sold, after which NN Belgium took its current form. In 2012, NN Belgium was the tenth largest provider of life insurance products and the twelfth largest provider of non-life insurance products measured by GWP with a market share of 3.3% and 1.2%, respectively, in Belgium (source: Assuralia).

Products

NN Belgium offers a range of life insurance products to retail customers and self-employed persons with a focus on term life insurances and a unique unit-linked annuity product. This latter product offers a lifelong guarantee and a surrender option to receive the remaining assets. In addition, and to a lesser extent, NN Belgium also offers non-life insurance products to retail customers.

NN Belgium's life insurance product offering consists of the following:

- ***Traditional policies***: single and recurring premium saving plans and saving plans for pensions and pension products for self-employed persons and single premium investment products and mortality riders linked to saving plans;
- ***Unit-linked policies***: single premium annuity products with a minimum guarantee, offering a guaranteed minimum lifelong benefit; and
- ***Protection policies***: single and recurring premium term life insurances, mostly linked to mortgages and personal loans, and recurring premium personal accident and disability policies and disability riders.

NN Belgium's non-life insurance products consist of fire, liability and legal aid insurance products for retail customers. NN Belgium expects to discontinue the offering of its non-life products by the end of 2014, in order to start distributing the Netherlands Non-life's fire, third party liability and legal aid insurance policies.

Since April 2014 NN Belgium has also acted as distributor for the Netherlands Non-life segment, distributing motor insurance products to retail customers in Belgium. NN Belgium intends to extend the offering of Netherlands Non-life products in Belgium to include fire, third party liability and legal aid insurance policies by the end of 2014, in order to maximise economies of scale, optimise reinsurance premiums and for purposes related to the capital requirements of the Solvency II Directive.

Distribution

NN Belgium's life and non-life insurance products are sold solely through bancassurance (100% of NN Belgium's APE and GWP in 2013), predominantly by ING Bank Belgium (with 752 branches) under the ING Bank brand and, to a lesser extent, by Record Bank (a subsidiary of ING Bank Belgium with 585 branches). The preferred partner distribution agreements with ING Bank Belgium are in place until 2024. Under these agreements, NN Belgium is allowed to distribute its insurance products through other third parties and its own branded products through its own direct distribution channel. Direct channel capabilities are being developed by NN Belgium.

Spain

General

Nationale-Nederlanden Spain commenced operations in 1978. In 2012, Nationale-Nederlanden Spain was the sixteenth largest provider of life insurance products and the eighty-fifth largest provider of non-life insurance products measured by GWP with a market share of 1.5% and 0.1%, respectively, in Spain. Nationale-Nederlanden Spain was further the twenty-first largest provider of voluntary pension funds by AuM with a market share of 0.6% in 2012 in Spain (source: ICEA and Inverco).

Products

Nationale-Nederlanden Spain offers life insurance products to retail, SME and corporate customers and voluntary pension funds to retail and corporate customers, with a focus on life protection and long-term savings products. In addition, Nationale-Nederlanden Spain offers, to a very small extent, non-life insurance products.

Nationale-Nederlanden Spain's life insurance product offering consists of the following:

- ***Traditional policies***: recurring and single premium endowment life policies and single premium annuity group life policies;
- ***Unit-linked policies***: single premium variable annuity products with a guaranteed minimum accumulation benefit and death benefit, recurring premium whole life insurance and recurring premium products based on an individualised constant proportion portfolio insurance (**CPPI**) mechanism, which is an investment product with unit-linked and variable annuity features with a guaranteed minimum capital return; and

- ***Protection policies***: recurring premium term insurance covering death, heart attack, breast cancer and/or disability and recurring premium protection group life policies covering death and disability and a waiver of premium rider to the individualised CPPI-based recurring premium unit-linked product.

Nationale-Nederlanden Spain manages three voluntary pension funds on a defined contribution basis. Two of the voluntary pension funds are open to retail customers and one is open to corporate customers. The funds provide individual accounts. The employee determines the level of contributions, which is limited by an age-dependent cap. Customers are by law free to switch between voluntary pension funds at any time.

Nationale-Nederlanden Spain's non-life insurance products consist of fire and income (including accident) insurance. Nationale-Nederlanden Spain also acts to a very small extent as distributor for motor insurance policies of a third party insurance company.

Distribution

Nationale-Nederlanden Spain distributes its life insurance products through tied agents (75% of Nationale-Nederlanden Spain's APE in life insurance in 2013), brokers (19% of Nationale-Nederlanden Spain's APE in life insurance in 2013), and, to a lesser extent, through bancassurance (6% of Nationale-Nederlanden Spain's APE in life insurance in 2013), by ING Bank Spain (with 28 branches). Direct channel capabilities are being developed by Nationale-Nederlanden Spain. The preferred supplier distribution agreement between Nationale-Nederlanden Spain and ING Bank Spain is in place until 2024.

Nationale-Nederlanden Spain distributes its voluntary pension funds solely through tied agents (100% of Nationale-Nederlanden Spain's APE in pensions in 2013).

Nationale-Nederlanden Spain's non-life products are distributed through tied agents (53% of Nationale-Nederlanden Spain's GWP in non-life insurance in 2013), bancassurance (40% of Nationale-Nederlanden Spain's GWP in non-life insurance in 2013), by ING Bank Spain (with 28 branches), and brokers (7% of Nationale-Nederlanden Spain's GWP in non-life insurance in 2013).

Greece

General

NN Greece commenced operations in 1982. In 2012, NN Greece was the second largest provider of life insurance products measured by GWP with a market share of 15.8% in Greece (source: Hellenic Association of Insurance Companies).

NN Greece's life insurance business includes a closed block portfolio of whole life healthcare insurance policies (including riders) sold from 1983 to 1996. NN Greece stopped selling these insurance products, as they were not profitable. As at 31 December 2013, the technical reserves of the closed block healthcare portfolio were EUR 3.3 million.

Products

NN Greece offers a wide range of life insurance products to retail customers with a focus on healthcare and savings products.

NN Greece's life insurance product offering consists of the following:

- ***Traditional policies***: recurring premium endowment insurance policies with profit-sharing based on a guaranteed interest rate. These products are either sold to complement state pensions or to provide a lump sum amount;
- ***Unit-linked policies***: recurring and single premium fixed saving insurance policies; and

- ***Protection policies***: recurring premium healthcare insurance (including riders), term life insurance and accident and disability insurance riders to term life insurance policies.

NN Greece also acts as distributor for motor and fire insurance products of third party insurance companies. In 2013, NN Greece recorded EUR 1.2 million of fee and commission income in relation to these distribution activities.

Distribution

NN Greece primarily distributes its life insurance products through tied agents (69% of NN Greece's APE in 2013) and bancassurance (31% of NN Greece's APE in 2013), by Piraeus Bank (with 900 branches). The exclusive distribution agreement between NN Greece and Piraeus Bank is in place until 2017.

Luxembourg

General

NN Luxembourg's history dates back to 1994. In 2000, following the acquisition of BBL by ING, De Vaderlandsche Luxembourg-Patriotique merged with BBL Insurance Luxembourg and became NN Luxembourg. In 2012, NN Luxembourg was the eleventh largest provider of life insurance products in Luxembourg measured by GWP with a market share of 2.6% in Luxembourg (source: Association des Compagnies d'Assurances).

Products

NN Luxembourg offers traditional and unit-linked life insurance products to retail customers, with a particular focus on dedicated fund products (tailor-made life insurance products) to high-net-worth individuals. These dedicated fund products capitalise on Luxembourg's unique policyholder protection regime. Pursuant to this regime, the policyholder's assets must be held by a custodian bank approved by the Luxembourg state regulator. Furthermore, the custodian bank is required to keep the policyholder's assets segregated from its own assets and policyholders have a preferential right over the segregated assets.

NN Luxembourg's life insurance product offering consists of the following:

- ***Traditional policies***: top-up policies for single premium universal life insurance products with guarantee features. Until mid-2012, NN Luxembourg also offered guaranteed variable annuity products;
- ***Unit-linked policies***: single premium standardised products for the Belgian market and single premium dedicated funds for the Belgian, French, Italian and Luxembourg markets. These products do not contain guarantee features; and
- ***Protection policies***: recurring and single premium credit life insurance products, mainly sold in combination with personal loans of ING Bank Luxembourg.

Distribution

NN Luxembourg's products are distributed to high-net-worth individuals in Belgium, France, Italy and Luxembourg, with Belgium as its main market and bancassurance (80% of NN Luxembourg's APE in 2013), by ING Bank Luxembourg (with 17 branches), as its main distribution channel. The exclusive distribution agreement between NN Luxembourg and ING Bank Luxembourg is in place until 2020. NN Luxembourg is also distributing its life insurance products through other banks and intermediaries (private bankers, asset managers and family offices) (20% of NN Luxembourg's APE in 2013), which it is currently expanding.

Japan Life

General

NN Japan commenced operations in 1986. NN Japan was the third largest provider of COLI products measured by APE with a market share of 9% in 2012 (source: NN). In 2013, the Japan Life segment recorded EUR 2,322 million GWP, representing 24% of NN's total GWP in 2013, and EUR 493 million of new business (measured by APE), representing 40% of NN's total APE in 2013. In 2013, the Japan Life segment had an operating result (before tax) of EUR 162 million, representing 13% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. As at 31 December 2013, the equity allocated to the Japan Life segment was EUR 1,259 million.

Products

NN Japan primarily offers a range of recurring premium COLI products to SMEs and owners and employees of SMEs. Since its initial COLI product launch in 1991, NN Japan has consistently innovated and introduced several products to the Japanese COLI market, such as increasing term life insurance, insurance coverage in cases of cancer and term life insurance with long-term care benefits.

In addition, NN Japan offers, to a limited extent, single premium whole life insurance policies with healthcare benefits to affluent and mass affluent retail customers.

COLI products

COLI products are traditional life insurance policies with an average duration of nine years that a company, typically an SME, takes out on the lives of executives or employees, whereby the company is both the policyholder and the beneficiary of the policy. COLI products are designed to address the protection, savings and retirement preparation needs of SMEs and owners and employees of SMEs in a tax-efficient manner. Premiums paid by SMEs are tax-deductible (e.g. 25% to 100%) depending on product type and other factors and the cash surrender value is taxed when paid out.

NN Japan's main traditional COLI product offering includes the following:

- ***Term life***: NN Japan's term life insurance products provide a fixed amount (level term) or an amount increasing over time (increasing term) upon death, limited or total disability. Term life products provide coverage for a limited period of time.
- ***Endowment***: NN Japan's endowment policies pay out a lump sum if the insured survives at maturity and provide death benefits if the insured dies before maturity. Total and permanent disability benefit can be included as well.
- ***Cancer***: NN Japan's cancer policies provide daily hospitalisation benefits, medical treatment benefits, optional permanent disability benefits, death benefits (all for cancer), and normal death benefits.
- ***Income protection***: NN Japan's income protection policies provide annuities that benefit the beneficiary in case of death, and total and permanent disability.

Individual life insurance products

NN Japan offers single premium whole life insurance policies with healthcare benefits to affluent and mass affluent retail customers that are aimed at protecting senior individuals against the risk of unexpected medical expenses while preserving their accumulated financial assets. These policies pay out a fixed amount upon the death of the insured, and a hospitalisation benefit upon illness of the insured.

Distribution

NN Japan distributes its insurance products solely through independent agents (including tax advisers and bank-affiliated corporate agencies) (93% of NN Japan's APE in 2013) and bancassurance (including large securities houses) (7% of NN Japan's APE in 2013). Unlike most of its competitors, NN Japan does not distribute products through the tied agents' distribution channel.

BTMU (with 640 branches offering NN Japan's products), Daiwa (with 129 branches offering NN Japan's products) and Nomura (with 194 branches offering NN Japan's products) are NN Japan's main bancassurance distributors. The non-exclusive distribution agreements between NN Japan and each of BTMU, Daiwa and Nomura all have a yearly, automatically renewable term.

Investment Management

General

NN's investment management business, operating under the brand NN Investment Partners, provides a wide variety of actively managed international investment products, as well as advisory services to retail and institutional customers in all major asset classes and investment styles. In addition, NN Investment Partners manages the assets of NN's insurance businesses.

NN Investment Partners offers its products and services globally through regional centres in several countries across Europe, the United States, the Middle East and Asia, with the Netherlands as its main investment hub. NN Investment Partners is organised in multiple specialist skills-based investment boutiques supported by a fully integrated infrastructure. NN Investment Partners' investment boutiques operate in the main asset classes: equity, fixed income, and money market.

In the Netherlands, NN Investment Partners was the largest investment management company measured by AuM with a market share of 13.8% in 2012 (source: AF Advisors). In Europe, NN Investment Partners was the fortieth largest investment management company and the eighth largest captive asset management company measured by AuM with a market share of 0.7% in 2012 (source: Lipper FMI Statistics). As at 31 December 2013, NN Investment Partners managed 130 investment funds, of which 35% had a four-star Morningstar rating and 8% had a five-star Morningstar rating. More than 71% of NN Investment Partners' investment funds had outperformed their respective benchmarks on a three-year, asset-weighted basis as at 31 December 2013.

As at 31 December 2013, NN Investment Partners had EUR 174,124 million of AuM, of which EUR 74,857 million was managed for third party retail and institutional customers and the remaining EUR 99,267 million for the general account of NN's insurance businesses and NN's other affiliate business. In addition, NN Investment Partners had EUR 39,365 million in assets under advice as at 31 December 2013 on which NN Investment Partners provides fiduciary and advisory services. In 2013, the Investment Management segment recorded EUR 444 million in fee and commission income, of which EUR 275 million was derived from third party retail and institutional customers and the remaining EUR 169 million from the general account of NN's insurance businesses and NN's other affiliate business. In 2013, the Investment Management segment had an operating result (before tax) of EUR 131 million, representing 10% of NN's total operating result (before tax) from ongoing business excluding the Other segment in 2013. As at 31 December 2013, the equity allocated to the Investment Management segment was EUR 359 million.

Products and services

NN Investment Partners' investment management products and investment management and advisory services include the following:

- ***Investment funds***: NN Investment Partners manages 97 global investment funds, based in Luxembourg, which are open to both retail and institutional customers. These funds are distributed in 25 countries in Europe, Asia and

Latin America. NN Investment Partners furthermore manages local investment funds in the Netherlands, Belgium, Poland, Hungary, Greece, Japan, the Cayman Islands and India.

- ***Institutional mandates***: NN Investment Partners offers institutional customers individual portfolio management services, allowing them the opportunity to invest in tailored investment strategies through a segregated account.
- ***Fiduciary and advisory services***: NN Investment Partners provides fiduciary and advisory services to institutional customers, with a focus on the Dutch pension and insurance market. As part of its fiduciary offering, NN Investment Partners also offers asset manager selection and advisory services, from its offices in the Netherlands and Switzerland, to institutional customers, which are offered under the Altis brand.

The table below sets out the breakdown by asset class in terms of AuM as at 31 December 2013, 2012 and 2011.

AuM

		as at 31 December	
(in millions of EUR)	**2013**	**2012**	**2011**
		(unaudited)	
Equity	33,985 (1)	31,963	33,339
Fixed income	136,813 (1)	147,528	131,084
Money market	3,326	5,304	4,314
Total	**174,124**	**184,795**	**168,736**

(1) In 2013, 6% of NN Investment Partners' AuM is invested in multi-asset funds, which comprises both equity and fixed income investments.

NN Investment Partners divides its customers into the following categories:

- ***Proprietary (general account assets)***: For NN's insurance businesses in the various countries, NN Investment Partners manages the assets of their general account. The additional services NN Investment Partners provides to these businesses vary per business depending on local circumstances and include advice on strategic asset allocation, hedging services and financial accounting and reporting.
- ***Other affiliate business***: NN Investment Partners manages assets for retail and institutional customers that are sourced through NN's insurance businesses. These assets comprise primarily the assets of large closed blocks of separate accounts from corporate pension plans insured by NN's insurance businesses, assets from NN's retail unit-linked insurance business in the Benelux and assets from the Japan Closed Block VA segment. To a lesser but growing extent, these assets further comprise assets from NN's unit-linked insurance and pensions businesses in CEE and assets from NN's individual pensions business in the Netherlands.
- ***Institutional customers***: NN Investment Partners' institutional customers include public, corporate and union retirement plans, endowments and foundations, and insurance companies. NN Investment Partners provides a full range of investment products in the form of investment funds, institutional mandates and fiduciary services to its institutional customers.
- ***Retail customers***: NN Investment Partners provides investment funds primarily to affluent and mass affluent retail customers. From a distribution perspective, NN Investment Partners distinguishes its retail customers in: (a) "home markets" which are the Benelux and Poland and (b) "other countries" which are the rest of the world.

NN Investment Partners' customers are based all over the world, but predominantly in Northern and Western Europe and particularly in the Netherlands.

The table below sets out the breakdown by customer category in terms of AuM as at 31 December 2013, 2012 and 2011.

AuM

	as at 31 December		
(in millions of EUR)	**2013**	**2012**	**2011**
		(unaudited)	
Proprietary (general account assets)	69,944	78,978	69,944
Other affiliate business	29,323	28,566	29,567
Institutional customers	41,961	45,074	41,254
Retail customers home markets	23,394	22,471	21,969
Retail customers other	9,502	9,706	6,002
Total	**174,124**	**184,795**	**168,736**

Distribution

To its retail customers, NN Investment Partners distributes its products primarily through banks, brokers and independent agents (jointly 40% of NN Investment Partners' gross AuM inflows in 2013) and NN's insurance businesses (10% of NN Investment Partners' gross AuM inflows in 2013, excluding NN's general account). In the Netherlands and Poland, NN Investment Partners recently started its own direct distribution channel. To its institutional customers, NN Investment Partners distributes its products and services solely through its own sales force (24% of NN Investment Partners' gross AuM inflows in 2013).

ING Bank (with 268 branches) is NN Investment Partners' main bancassurance distributor in the Netherlands. The non-exclusive distribution agreement between NN Investment Partners and ING Bank has an indefinite term and can be terminated at any time. In addition, NN Investment Partners has non-exclusive distribution relationships in place with various banks in the Netherlands as well as internationally (including local ING Banks).

Other

This segment comprises the business of NN Bank and NN Re, the holding result and other results. The Other segment had an operating loss (before tax) of EUR 373 million in 2013. As at 31 December 2013, the equity allocated to the Other segment was EUR -1,104 million. The allocated equity of the Other segment mainly comprises the allocated equity of NN Bank (EUR 363 million) and NN Re (EUR 449 million), as well as the cash capital position of the holding company (EUR 1,363 million) and other assets of the holding company (EUR 560 million) minus the corporate debt (EUR 3,892 million).

NN Bank

General

In 2011, NN Bank received a banking licence to offer banking products to retail customers in the Netherlands. This enabled NN to offer bank annuities through NN Bank as an alternative to its offering of individual life annuity products. In 2012, ING Groep, the Dutch State and the EC agreed in the 2012 Restructuring Plan that part of the commercial operations of WUB, primarily a mortgage bank owned by ING, were to be combined with NN Bank. As a result, certain savings, mortgage, investments and consumer credit activities of WUB were transferred to NN Bank since July 2013. Following this integration, NN Bank offers a range of banking products to retail customers in the Netherlands. In addition, NN Bank coordinates the distribution of NN's individual life and retail non-life insurance products in the Netherlands through intermediaries and NN's direct channel to enable a comprehensive product offering to retail customers in the Netherlands. As part of the 2012 Restructuring Plan, ING Groep has, amongst other commitments, committed to the EC to ensure that NN Bank will reach certain targets for mortgage production and consumer credit: (a) on an annual basis, and (b) before the date on which ING Groep has divested more than 50% of its interest in the Issuer. A divestment of more than 50% of the Issuer as mentioned in this paragraph also means that ING Groep (a) no longer has a majority of representatives on the Management Board and (b) has deconsolidated the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules. If the EC decides or requires so, these commitments may apply until 31 December 2015 or beyond. See "*Supervision and Regulation—EC Restructuring*

Plan" for further information on the EC Restructuring Plan. In 2013, NN Bank had an operating loss (before tax) of EUR 11 million. As at 31 December 2013, NN Bank's total assets were EUR 7,420 million, of which NN Bank's mortgage loan portfolio was EUR 6,168 million. As at 31 December 2013, NN Bank's savings and deposits portfolio was EUR 5,769 million, consisting of EUR 4,140 million of savings and EUR 1,629 million of bank annuities. As at 31 December 2013, the equity allocated to NN Bank was EUR 363 million.

Products

NN Bank's banking product offering, with mortgages and savings as its key products, includes the following:

- ***Mortgages***:
    - *Annuity mortgages*: NN Bank's annuity mortgages are loans under which the borrower pays a fixed amount consisting of interest and a portion of the original loan amount on a monthly basis. Payments in the early years of the mortgage are mainly interest. The balance of the mortgage loan owed decreases as the period progresses, until the loan is fully paid at the end of the mortgage term. Annuity mortgages are primarily provided to first-time homeowners.
    - *Bank saving mortgages*: NN Bank's bank saving mortgages are mortgages arranged on an interest-only basis where the capital is to be repaid on a pledged savings account. At the end of the mortgage term the mortgage is repaid with the money from the pledged savings account. The interest rate on the savings account is equal to the mortgage rate. Bank saving mortgages are primarily provided to homeowners other than first-time homeowners for tax reduction reasons.
    - *Interest-only mortgages*: NN Bank's interest-only mortgages are mortgages under which the borrower pays only the interest on a monthly basis for the duration of the mortgage, after which the principal balance is amortised and repaid at the end of the mortgage duration. As a consequence of the Dutch tax regime that applies since 2013, interest-only mortgages are only sold under strict conditions and to a limited extent.
    - *Combined mortgages*: NN Bank's combined mortgages are interest-only mortgages combined with any of the other mortgages offered by NN Bank. Combined mortgages are only offered to customers who took out an interest-only mortgage under the Dutch tax regime that applied until 2013.

  Until 2012, NN Bank also offered investment mortgages, life mortgages and credit mortgages.

- ***Bank annuities (banksparen)***:
    - *Immediate annuities*: NN Bank's immediate annuities are fiscal savings products in which a lump sum is invested in order to provide the customer with fixed payments per month, quarter, half-year or year. The lump sum is the result of a pension savings scheme that grants tax deduction, provided that the savings are paid into a fund that can only be withdrawn as an annuity. The payments that the customer receives are taxed against progressive Dutch personal income tax rates with a maximum of 52%.
    - *Deferred annuities*: NN Bank's deferred annuities are fiscal savings products for pension savings schemes. The government grants tax deduction for the savings, provided that savings are ultimately paid into a fund which can only be withdrawn as an annuity. Tax deduction in the Netherlands is only allowed if, without additional savings, the pension income would be less than 70% of the current income.
    - *Annuities for severance payments*: NN Bank's annuities for severance payments are fiscal savings products for severance payments. Until 1 January 2014, the government granted tax exemption for the severance payments, provided that the amount was invested in a savings fund that could only be withdrawn as an annuity.
- ***Savings products***: NN Bank offers savings accounts with a variable interest rate, and term deposits with a term of one to ten years and a fixed interest rate.
- ***Consumer credit***: NN Bank offers revolving credits with a variable interest rate and personal loans.
- ***Retail investments***: Retail customers can mandate NN Bank to invest in investment funds of different asset managers. NN Bank also offers advisory services in respect of investments. These are primarily linked to mortgages.

In 2014, NN Bank will add credit cards to its product portfolio, in accordance with the EC Restructuring Plan.

NN Bank also acts as the coordinator for the distribution of NN's individual life and retail non-life products to enable a comprehensive product offering to retail customers in the Netherlands.

Distribution

NN Bank's banking products are primarily distributed through intermediaries and NN Bank's direct channel. NN Bank does not have any branches. The distribution channels vary considerably between the product categories. Mortgages and retail investments are predominantly distributed through intermediaries (99% of NN Bank's mortgage production in 2013). Bank annuities are distributed more evenly through NN Bank's direct channel (40% of NN Bank's bank annuities' volume in 2013) and intermediaries (60% of NN Bank's bank annuities' volume in 2013). Savings products are predominantly distributed through NN Bank's direct channel (96% of NN Bank's savings inflow in 2013). Consumer credit was not yet offered by NN Bank in 2013.

NN Bank services the distribution of NN's individual life and retail non-life products primarily through intermediaries (predominantly mandated brokers) (68% of NN's retail insurance APE in the Netherlands in 2013) and through NN Bank's direct channel (11% of NN's retail insurance APE in the Netherlands in 2013), which is becoming increasingly important. The APE related to these activities is included in the Netherlands Life and the Netherlands Non-life segments (including the distribution through ING Bank (21% of NN's retail insurance APE in the Netherlands in 2013)).

NN Re

General

NN Re is NN's internal reinsurer (with an A rating from Standard & Poor's for NN Re Netherlands which forms part of NN Re) located in the Netherlands. NN Re offers reinsurance to NN's insurance subsidiaries. However, NN Re's in-force book does to a small extent include contracts with external parties, which are almost exclusively former ING companies, but these contracts are all discontinued for new business. In addition, NN Re also manages ING Reinsurance Company International Ltd. (IRCIL), a non-rated licensed reinsurance entity in Ireland which was incorporated in 1997 for the assumption of a closed block of structured settlement liabilities (monthly fixed annuity payments which will gradually run off in the period until 2055) from a third party. The underlying assets in respect of these liabilities are EUR 949 million and largely consist of U.S. corporate bonds as well as a receivable on NN Re Netherlands. In 2013, NN Re had an operating loss (before tax) of EUR 15 million. NN Re reinsures, amongst others, the minimum guarantee obligations of the Japan Closed Block VA and (part of) the life insurance business of NN Czech Republic, Nationale-Nederlanden Poland and NN Hungary. In the segment reporting, the results from the reinsurance arrangement regarding Japan Closed Block VA are reported under the Japan Closed Block VA segment and the results from certain reinsurance arrangements regarding the life insurance business of NN Czech Republic, Nationale-Nederlanden Poland and NN Hungary are reported under the Insurance Europe segment (whilst the rest of the NN Re results are reported under the Other segment). As at 31 December 2013, the equity allocated to NN Re reported under the Other segment was EUR 449 million.

Products

NN Re's core product is reinsurance. Reinsurance enables NN's insurance businesses to mitigate their risk, to reduce their claims/earnings volatility, and also to relieve their capital requirements to increase their underwriting capacity. NN Re aims to apply intra-group risk transfer to enhance NN's overall capital efficiency through improved risk diversification. NN Re also supports NN's insurance businesses in pricing, managing risk and developing new products.

NN Re offers reinsurance contracts for life as well as non-life insurance. For non-life insurance, the in-force business almost entirely relates to the Netherlands, Belgium and Spain. For life insurance, the portfolio is spread over all countries in which NN is active.

The largest portfolio of NN Re is the closed block SPVA portfolio of NN Japan, for which NN Re reinsures the minimum guarantee obligations, which are fully accounted for in the Japan Closed Block VA segment. See "*—Japan Closed Block VA—Reinsurance and management*" for further information. NN Re also reinsures variable annuity policies sold by NN's Insurance Europe segment, in particular NN Belgium, Nationale-Nederlanden Spain and NN Hungary. As at 31 December 2013, NN Re had reinsured the minimum guarantees related to EUR 1,238 million of AuM for the European variable annuity portfolio.

Risk management

NN Re manages its risks through ceding excess insurance risk to external reinsurers and hedging (a major part of) its market risks. The hedge objective of the variable annuity hedge programme is to mitigate market risks and to enter into positions with appropriately offsetting risk characteristics such as derivatives contracts.

Holding and other results

The holding result included in the Other segment comprises the interest paid on hybrids and debt, the amortisation of intangibles and the head office expenses that are not allocated to the business segments.

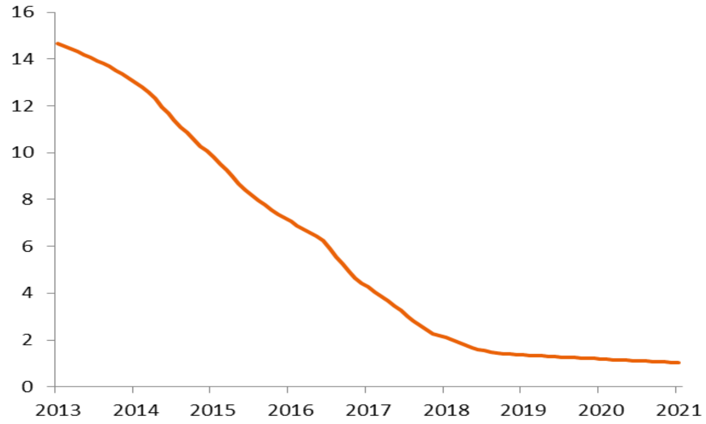
The other results include the results that are not allocated to the business segments, including (a) the costs of claims and lawsuits (i) concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN in Mexico, which claim was settled in March 2014 and the costs of which are indemnified by ING Groep under the indemnification and allocation agreement; see "*—Material Agreements—Indemnification and allocation agreement*", and (ii) filed by former employees of an Argentinean subsidiary, whose employment was terminated as a result of the Republic of Argentina's nationalisation of the pension fund system, by some former clients of this subsidiary and by a few third parties and (b) the results of Nationale-Nederlanden Overseas Finance and Investment Company in relation to a guarantee provided to the ILU with respect to two legacy insurance subsidiaries of the Issuer, Orion and L&O; see also "*Risk Factors—Financial Reporting Risks— NN's technical reserves reflected in its IFRS financial statements to pay insurance and other claims, now and in the future, could prove inadequate, which could require that NN strengthen its reserves, which may have a material adverse effect on NN's results of operations and financial condition.*".

Japan Closed Block VA

General

The Japan Closed Block VA segment comprises NN's closed block SPVA individual life insurance portfolio in Japan. This portfolio consists of products sold predominantly from 2001 to 2009. During that time NN Japan was one of the largest providers of SPVA products in Japan. NN Japan's SPVA products contain substantial minimum guarantee obligations on the invested principal, and for some products an amount which may lock in at a higher guarantee level, with respect to the amount paid upon death of the policyholder or upon survival at the end of the investment period for certain product types. In 2009, NN Japan ceased the sale of SPVA products due to ongoing difficult economic conditions (particularly low interest rates in Japan) as well as the capital intensive nature of SPVA products. NN Japan placed the portfolio in run-off and classified it as a closed block. The majority of the closed block SPVA portfolio is projected to run off relatively quickly due to the short-term maturity profile and outstanding policy life of the SPVA products. Approximately 90% of all SPVA policies are expected to have matured by the end of 2019. NN Japan expects that most policyholders will elect to receive their maturity proceeds as a lump sum payment, but some may elect to receive their maturity proceeds in the form of an annuity. Based on NN Japan's recent experience, the percentage of customers electing an annuity is expected to be less than 10%. As at 31 December 2013, the remaining AuM of the closed block SPVA portfolio were EUR 14,698 million. In 2013, the Japan Closed Block VA segment had an operating result (before tax) of EUR 80 million. As at 31 December 2013, the equity allocated to the Japan Closed Block VA segment was EUR 1,236 million.

The figure below sets out the expected maturity profile of the closed block SPVA portfolio measured by AuM in-force in billions of EUR.



Product portfolio

The SPVA policies forming the closed block SPVA portfolio consist of an investment phase, typically of ten years, during which the policyholder makes deposits that are maintained in a separate account, after which the accumulated fund value or guaranteed benefit can be converted into an annuity or paid out as a lump sum. Annuities are priced at the prevailing rate at the time of annuitisation. Policyholders who surrender their policy before maturity receive their current account value (the value of their fundholding) at the time of surrender (less a surrender charge for certain products depending on policy year).

The closed block SPVA portfolio can be divided into the following three categories on the basis of the guarantees offered in each product series:

- ***Death benefit***: Under this type of SPVA policies a minimum guaranteed benefit is paid upon the death of the policyholder. Such benefit is either a single premium or an amount which may lock in at a higher guarantee level depending on the product. All death benefit products provide the option to extend the guarantee of the policy during the investment phase up to age 90 and some policies also allow further extension to whole of life. As at 31 December 2013, this block accounted for 21.6% of the total closed block guarantee value.
- ***Accumulation benefit***: Under this type of SPVA policies a minimum guaranteed benefit is paid upon death or at maturity of the policy at the end of the initial investment period. The survival guarantee is only available up until the original policy term and cannot be changed. The minimum guaranteed benefit is either a single premium or an amount which may lock in at a higher guarantee level depending on the product. As at 31 December 2013, this block accounted for 76.1% of the total closed block guarantee value.
- ***Other***: This part of the closed block SPVA portfolio consists of a range of products, including products with a minimum guaranteed income and products with a minimum guaranteed withdrawal benefit, as well as de-risked SPVA products (SD555) sold from 2010 to 2013. As at 31 December 2013, this block accounted for 2.3% of the total closed block guarantee value.

Reinsurance and management

The minimum guarantee obligations of NN Japan under the closed block SPVA portfolio are fully reinsured by NN's internal reinsurer NN Re, with the exception of NN Japan's obligations under the de-risked SPVA products (SD555), 75% of which are reinsured by NN Re and 25% by an external reinsurer. Pursuant to the reinsurance agreements with NN Re, NN Re covers the risk of a shortfall by NN Japan under its minimum guarantee obligations under the SPVA products, which consists of the difference in the guarantee value owed to the policyholder and the account value under the reinsurance agreements. NN Re manages this risk through a hedging programme which seeks to (partially) offset market-related movements in the IFRS reserves, while simultaneously mitigating market-related effects on the capital position of NN Re. The closed block SPVA portfolio is NN Re's largest portfolio. As at 31 December 2013, NN Re Netherlands allocated EUR 910 million AFR to this portfolio. The economic capital allocated to this portfolio as at 31 December 2013 was EUR 413 million, based on a confidence level of 99.5%, and was calculated on a diversified basis with the other business of NN Re Netherlands (the total economic capital for NN Re Netherlands was EUR 735 million as at 31 December 2013). See "*—Other—NN Re*" for information on NN Re's other reinsurance activities not relating to the Japan Closed Block VA. NN Japan is responsible for management of the policies, the relationship with the customers, the distributors and the Japanese regulatory authority. NN's primary focus in managing the closed block SPVA portfolio is on prudently managing risk in order to release capital as the portfolio runs off. In addition, NN also seeks to maximise operating profits by improving efficiency while continuing to provide its services to policyholders and distributors.

See "*Risk Factors—Risks related to the Business and Strategy—In valuing its insurance liabilities and in pricing its life insurance and pension products, NN uses assumptions to model the impact of future policyholders' behaviour, which may be different from the actual impact of future policyholders' behaviour. A discrepancy between assumed policyholder behaviour and actual experience, as well as changes to the assumptions used in the modelling, may have a material adverse effect on NN's business, revenues, results of operations, financial condition and prospects*". See also "*Risk Factors—Risks related to the Business and Strategy—Investment guarantees of NN's separate accounts pension business in the Netherlands and the variable annuity products sold in Japan have in the past had, and may in the future have, a material adverse effect on NN's business, results of operations, and financial condition*".

INVESTMENTS

Overview

NN's investment strategy is based on its asset and liability management process (**ALM**), which aims to match the cash flows of NN's asset portfolio to its liabilities with an optimal strategic asset allocation (**SAA**). The ALM is largely liability-driven in that it seeks to ensure that NN is able to meet its obligations to policyholders as and when they arise. The SAA is designed to optimise the risk and return of the investment portfolio on an economic basis taking into account the nature of NN's liabilities and certain assumptions (including assumptions used in NN's risk models and assumed investment returns) and constraints (e.g. NN's risk profile and available capital).

The values presented in the investments overview below are not the same as those presented in NN's IFRS consolidated balance sheet for several reasons, including the following. In managing its general account investment portfolio, NN uses categories of asset classes that differ in some respects from the presentation of those assets on its IFRS balance sheet. Some IFRS balance sheet items are not in scope for the purposes of NN's investment management (such as non-trading derivatives and reinsurances). NN typically uses market value (including accrued interest, where applicable) in managing its investment portfolio and for risk management purposes, which is not necessarily consistent with the presentation of those assets on NN's IFRS balance sheet. The values presented in this section are the market value of the relevant assets (with the exception of mortgage loans).

In order to provide comparable information given the disposal of all material insurance and investment management operations of NN in the United States, Latin America, and Asia/Pacific (excluding Japan) (see "*Business—Material Agreements—Acquisitions and disposals*"), the investment portfolio of the entities that were divested in 2013 and 2012 are not included in the investment portfolio as at 31 December 2012 presented in this section.

Asset allocation of general account investment portfolio

The table below sets out the allocation of NN's general account investment portfolio by asset class in terms of market value and percentage of NN's total general account investment portfolio as at 31 December 2013 and 2012, respectively.

Asset allocation of general account investment portfolio of NN

	as at 31 December 2013		as at 31 December 2012	
(in millions of EUR : % of total)	**Market value**	**% of total**	**Market value**	**% of total**
Fixed income	**79,473**	**82%**	**79,103**	**82%**
Government bonds	44,251	46%	50,831	53%
Financial bonds	4,452	5%	5,845	6%
Corporate bonds	6,453	7%	7,503	8%
Asset Backed Securities	7,199	7%	7,267	8%
Mortgage loans	14,218	15%	5,398	6%
Other Loans	2,900	3%	2,260	2%
Non-Fixed income	**10,435**	**11%**	**10,017**	**10%**
Common & Preferred Stock	2,500	3%	2,087	2%
Private Equity	943	1%	855	1%
Mutual Funds	2,336	2%	2,020	2%
Real Estate	4,657	5%	5,055	5%
Cash	**6,749**	**7%**	**6,778**	**7%**
Total general account investments	**96,656**	**100%**	**95,898**	**100%**

The table below sets out the allocation of Netherlands Life's general account investment portfolio by asset class in terms of market value and percentage of Netherlands Life's total general account investment portfolio as at 31 December 2013 and 2012, respectively.

Asset allocation of general account investment portfolio of Netherlands Life

	as at 31 December 2013		as at 31 December 2012	
	(unaudited)		*(unaudited)*	
(in millions of EUR : % of total)	**Market value**	**% of total**	**Market value**	**% of total**
Fixed income	**48,204**	**85%**	**48,724**	**85%**
Government bonds	27,425	48%	30,657	53%
Financial bonds	1,450	3%	1,936	3%
Corporate bonds	2,568	5%	2,901	5%
Asset Backed Securities	6,437	11%	6,216	11%
Mortgage loans	7,990	14%	5,256	9%
Other Loans	2,334	4%	1,758	3%
Non-Fixed income	**8,648**	**15%**	**8,400**	**15%**
Common & Preferred Stock	2,180	4%	1,876	3%
Private Equity	806	1%	737	1%
Mutual Funds	1,487	3%	1,245	8%
Real Estate	4,175	7%	4,542	2%
Cash	**118**	**0%**	**413**	**1%**
Total general account investments	**56,970**	**100%**	**57,537**	**100%**

Fixed income portfolio

NN's general account fixed income portfolio comprises government bonds, financial bonds, corporate bonds, asset backed securities, mortgage loans and other loans.

A key part of NN's investment strategy is to match its asset cash flows to its liability cash flows. Given that the policyholder liabilities generated in the life insurance business are generally long-term liabilities, a significant portion of NN's total investment portfolio is comprised of long-term fixed income assets. As at 31 December 2013, NN's general account fixed income portfolio represented 85% of the total market value of general account assets (2012:

85%). In recent years, various loan classes have been added to the investment portfolio. Interest rate swaps are used to further enhance the matching of asset and liability cash flows.

The table below sets out the market value of NN's general account fixed-income assets (excluding mortgage loans and derivatives) by rating and maturity as at 31 December 2013 and 2012, respectively.

General account fixed income portfolio by rating (1)

	as at 31 December 2013 (2)		as at 31 December 2012 (3)	
	(unaudited)		*(unaudited)*	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
AAA	30,485	47%	34,686	47%
AA	19,881	31%	20,257	28%
A	6,223	10%	11,495	16%
BBB	6,599	10%	4,920	7%
Less than BBB	1,484	2%	2,162	3%
Not rated	301	0%	2	0%
Total	**64,972**	**100%**	**73,522**	**100%**

(1) Excludes mortgage loans.

(2) For 2013, the second best external rating (Standard & Poor's, Fitch and Moody's) is used. When no external ratings are available, internal ratings are used. If bonds or loans are guaranteed by a guarantor, the internal rating is equal to the guarantor's external rating. Internal ratings were used for non-guaranteed assets with a market value of EUR 1.27 billion, or 1.9% of NN's total fixed income portfolio as at 31 December 2013.

(3) For 2012, external ratings of Standard & Poor's, Fitch and Moody's are used on a waterfall basis are used. When no external ratings are available, internal ratings are used. If bonds or loans are guaranteed by a guarantor, the internal rating is equal to the guarantor's rating.

The table below sets out the market value of NN's general account fixed-income bonds by type of issuer as at 31 December 2013 and 2012, respectively.

General account fixed-income bonds by type of issuer(1)

	as at 31 December 2013		as at 31 December 2012	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
Government Bonds	44,251	71%	50,831	71%
Asset Backed Securities	7,199	12%	7,267	10%
Financial Institutions	4,452	7%	5,845	8%
Utilities	1,501	2%	1,815	3%
Transportation & Logistics	857	1%	449	1%
Telecom	795	1%	1,013	1%
General Industries	638	1%	591	1%
Food, Beverages & Personal Care	622	1%	675	1%
Other Corporate and Financial Bonds	2,040	3%	2,961	4%
Total	**62,355**	**100%**	**71,445**	**100%**

(1) Bond values include accrued interest

Government bonds

Long-term bonds issued by central governments and lower public administrative entities are used to match its long-term liabilities as government bonds are amongst the few tradable fixed income securities generating cash flows for 20 years and longer. Interest rate swaps are increasingly being used by NN to match long-term liabilities. As at 31 December 2013, government bonds represented 46% of the total market value of NN's aggregate general account portfolio (2012: 53%), and 55% of NN's general account fixed income portfolio (2012: 64%).

The table below sets out the market value of NN's general account assets invested in government bonds by country and maturity, as at 31 December 2013, together with the total investments by country as at 31 December 2012.

General account market value government bonds

(*in millions of EUR*)	**Rating (1)**	**Domestic exposure (2)**	**Market value as at 31 December 2013 of government bond by number of years to maturity** **0-1**	**1-2**	**2-3**	**3-5**	**5-10**	**10-20**	**20-30**	**30+**	**Total 2013**	**Total 2012**
Germany	AAA	0%	155	70	115	331	263	3,288	4,215	153	8,591	12,225
Netherlands	AAA	98%	17	132	82	104	1,210	1,458	3,399	-	6,401	7,183
France	AA+	0%	64	100	44	108	265	276	2,472	2,197	5,524	5,586
Belgium	AA	41%	141	242	210	830	1,413	911	1,498	69	5,315	4,739
Japan	AA-	99%	276	68	128	331	1,425	1,740	837	294	5,099	8,183
Austria	AAA	0%	210	44	85	174	803	1,462	588	728	4,095	3,937
Italy	BBB	0%	21	109	21	63	178	880	124	5	1,401	1,393
Multilateral (3)	AAA	2%	81	65	132	44	345	285	376	34	1,362	719
Finland	AAA	0%	7	16	14	49	343	355	324	-	1,108	1,079
Spain	BBB-	65%	3	25	14	60	46	513	387	-	1,049	907
United States	AAA	0%	39	401	31	190	51	4	177	-	893	1,018
Others		46%	227	264	364	524	1,010	676	348	0	3,413	3,862
Total		**37%**	**1,241**	**1,537**	**1,240**	**2,807**	**7,352**	**11,848**	**14,745**	**3,480**	**44,251**	**50,831**

[1] NN uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
[2] Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
[3] Multilaterals are debt issuers owned by multiple central governments (e.g. European Investment Bank, the European Union, World Bank and Eurofima).

Non-government fixed-income securities

The table below sets out the general account market value of non-government fixed-income securities (excluding mortgages loans and derivatives by rating and maturity as at 31 December 2013, together with the total non-government fixed-income securities (excluding mortgage loans and derivatives) by rating as at 31 December 2012. The AAA securities are primarily asset-backed securities.

General account market value of non-government fixed income securities[1]

(*in millions of EUR*)	**Market value as at 31 December 2013 of non-government bond securities by number of years to maturity** **0-1**	**1-2**	**2-3**	**3-5**	**5-10**	**10-20**	**20-30**	**30+**	**Total 2013**	**Total 2012**
AAA	158	90	280	691	1,514	972	1,299	1,977	6,981	6,732
AA	238	140	300	323	620	549	320	0	2,491	3,615
A	348	472	700	880	1,344	465	410	95	4,713	6,053
BBB	321	248	291	411	692	405	149	648	3,167	3,209
BB	87	8	34	97	155	9	0	183	573	616
B	19	15	18	23	26	0	57	0	158	226
CCC	0	0	0	0	0	0	0	6	6	161
Other	1	0	0	0	12	2	0	0	15	2
Total	**1,173**	**974**	**1,624**	**2,426**	**4,363**	**2,401**	**2,235**	**2,909**	**18,104**	**20,614**

[1] Bond values include accrued interest.

Asset-backed securities

NN's strategy in relation to asset-backed securities emphasises assets with a rating of AA or better and transactions predominantly involving residential mortgage loans and consumer credit exposures to quality borrowers sourced by the leading banks and other financial institutions within Europe. The investment strategy is conservative and the majority of NN's asset-backed securities are rated AAA. The table below sets out NN's holding of asset-backed securities by rating category in terms of market value and percentage of NN's total general account asset-backed securities portfolio as at 31 December 2013 and 31 December 2012.

Exposure by rating category [1]

	as at 31 December 2013		as at 31 December 2012	
	(unaudited)		*(unaudited)*	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
AAA	6,165	85.6%	5,447	75.0%
AA	393	5.5%	1,208	16.6%
A	311	4.3%	464	6.4%
BBB	251	3.5%	27	0.4%
BB and less	78	1.1%	120	1.6%
Total	**7,199**	**100%**	**7,267**	**100%**

[1] For asset-backed securities, the second best external rating (Standard & Poor's, Fitch and Moody's) is used.

The table below sets out NN's holdings of asset-backed securities by market value of asset type and the percentage of NN's total general account asset-back securities portfolio as at 31 December 2013 and 2012, respectively.

General Account Asset-backed securities

	as at 31 December 2013		as at 31 December 2012	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
RMBS	3,822	53%	4,356	60%
Car loans	1,848	26%	1,415	19%
Credit cards	463	6%	382	5%
CMBS	358	5%	343	5%
Student loans	251	3%	318	4%
SME loans	233	3%	227	3%
Consumer loans	117	2%	134	2%
Other	106	1%	91	1%
Total	**7,199**	**100%**	**7,267**	**100%**

The table below sets out NN's general account holdings of asset-backed securities by country of collateral in terms of market value per country and percentage of NN's total general account asset-backed securities portfolio as at 31 December 2013 and 2012, respectively.

General account holdings of asset-backed securities by country

	as at 31 December 2013		as at 31 December 2012	
	(unaudited)		*(unaudited)*	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
United Kingdom	2,264	31%	2,157	30%
Germany	1,591	22%	1,182	16%
Netherlands	1,096	15%	1,418	20%
France	693	10%	671	9%
United States	405	6%	552	8%
Spain	278	4%	295	4%
Italy	250	3%	341	5%
Australia	238	3%	252	3%
Portugal	152	2%	149	2%
Norway	131	2%	75	1%
Greece	57	1%	36	0%
Japan	38	1%	60	1%
Belgium	5	0%	6	0%
Ireland	-	-	73	1%
Total	**7,199**	**100%**	**7,267**	**100%**

Mortgage loans

As at 31 December 2013, the total general account holding of mortgage loans was EUR 6,228 million for NN Bank and EUR 7,990 million for Netherlands Life.

In 2013, NN increased its holding of Dutch residential mortgage loans, both at NN Bank and Netherlands Life. In the third quarter of 2013, EUR 4,757 million of Dutch residential mortgage loans were transferred from Westland Utrecht Bank (**WUB**) to NN Bank's mortgage loan portfolio. In the fourth quarter of 2013, Netherlands Life's holding of residential mortgage loans also increased, with the transfer of EUR 2,618 million of residential mortgage loans from ING Bank to Netherlands Life.

The LTV for residential mortgages, which is based on the net average indexed loan-to-value, at NN Bank and Netherlands Life, is 92% and 96%, respectively. The high LTV is due to the high proportion of interest-only mortgages in the Netherlands, which are attractive due to favourable Dutch tax treatment. Mortgages guaranteed by the Nationale Hypotheek Garantie accounted for 26% and 20% at NN Bank and Netherlands Life respectively at 31 December 2013..

Non-fixed income

NN's non-fixed income portfolio comprises equity (which includes holdings of listed entities and private equity investments), real estate holdings and investment in mutual funds.

Equity

The table below sets out NN's general account equity portfolio by security type in terms of market value and percentage of NN's total general account equity portfolio as at 31 December 2013 and 31 December 2012.

Equity and private equity portfolio

	as at 31 December 2013		as at 31 December 2012	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
Common and preferred stock	2,500	73%	2,087	71%
Private equity	943	27%	855	29%
Total	**3,443**	**100%**	**2,942**	**100%**

As an institutional investor in the Netherlands, NN takes larger stakes in listed companies, typically in excess of 5% of nominal capital through ordinary or preference shares. As at 31 December 2013, the market value of the ten largest general account equity positions in terms of market value represented 56% of the market value of the aggregate equity portfolio (2012: 53%). This included four stakes in Dutch companies in which NN held more than 5% of the issued share capital. The investment philosophy is long-term buy-and-hold. The stock selection process is based on fundamental in-depth bottom-up research, benchmark unaware, with a prime focus on capital preservation. The portfolio has a significant tilt towards the Netherlands and to consumer stocks. Consumer stocks are less dependent on the economic cycle and are dividend-paying.

The private equity strategy is managed by Parcom Capital Management and is designed to maximise risk adjusted rates of return by pursuing highly attractive investment opportunities.

The tables below set out NN's equity holdings by country in terms of market value and percentage of NN's total general account equity portfolio as at 31 December 2013 and 2012, respectively.

Equity holdings by country as at 31 December 2013

	as at 31 December 2013	
	(unaudited)	*(unaudited)*
(in millions of EUR, except for percentages)	**Market value**	**% of total**
Netherlands	2,179	63%
France	474	14%
Germany	327	10%
Belgium	160	5%
Switzerland	140	4%
Luxembourg	108	3%
Spain	19	1%
United Kingdom	12	0%
Slovakia	8	0%
Austria	6	0%
Others	10	0%
Total	**3,443**	**100%**

Equity holdings by country as at 31 December 2012

	as at 31 December 2012	
	(unaudited)	*(unaudited)*
(in millions of EUR, except for percentages)	**Market value**	**% of total**
Netherlands	2,068	70%
France	320	11%
Luxembourg	140	5%
Germany	122	4%
Belgium	116	4%
Switzerland	106	4%
United Kingdom	67	2%
Japan	2	0%
Total	**2,942**	**100%**

Real estate

NN's real estate portfolio strategy is to build on a core, pan-European portfolio fulfilling the needs within the multi-asset real estate portfolio: significant diversification, high stable cash flow, attractive total return on a long-term horizon. In 2012 and 2013 non-core assets were sold and the proceeds were reinvested in core assets. The focus of the portfolio is on shopping centres with a diversified tenant base, medium-sized, multi-tenant office buildings in major cities and high quality modern logistic assets in the major transportation hubs. NN's real estate portfolio is strongly weighted towards the 'core countries' of the Netherlands, France and Germany, with smaller holdings in the United Kingdom, Italy, Spain, Portugal, Belgium, Poland, Sweden and the Czech Republic.

The table below sets out NN's general account real estate holdings by sector type excluding leverage as at 31 December 2013 and 2012, respectively.

General account real estate assets by sector

	as at 31 December 2013		as at 31 December 2012	
	Revalued through P&L	**Not revalued through P&L**	**Revalued through P&L**	**Not revalued through P&L**
Residential	3%	17%	2%	17%
Office	10%	9%	14%	10%
Retail	30%	9%	28%	7%
Industrial	9%	0%	8%	0%
Other	2%	12%	3%	11%
Total	**53%**	**47%**	**55%**	**45%**

The table below sets out NN's real estate holdings by country in terms of percentage of NN's total general account real estate portfolio as at 31 December 2013 and 31 December 2012.

Real estate portfolio by country

	as at 31 December	
(in millions of EUR, except for percentages)	**2013**	**2012**
	(unaudited)	***(unaudited)***
The Netherlands	36.5%	37.3%
France	11.4%	10.4%
Germany	10.7%	14.5%
United Kingdom	8.7%	7.2%
Italy	7.5%	5.2%
Spain	5.7%	6.1%
Portugal	4.4%	4.3%
Belgium	3.8%	3.5%
Poland	3.3%	3.2%
Sweden	3.0%	3.3%
Czech Republic	2.1%	2.0%
Hungary	1.1%	1.0%
Finland	1.0%	1.0%
Denmark	0.5%	0.4%
Slovakia	0.4%	0.4%
Austria	0.1%	0.1%
Romania	0.1%	0.1%
Total	**100%**	**100%**

Mutual funds

The table below sets out the market value of NN's general account mutual funds portfolio by category as at 31 December 2013 and 2012, respectively.

Mutual funds portfolio				
	as at 31 December 2013		**as at 31 December 2012**	
	(unaudited)		***(unaudited)***	
(in millions of EUR, except for percentages)	**Market value**	**% of total**	**Market value**	**% of total**
Emerging market bonds	829	36%	862	43%
Bank loans	431	18%	346	17%
Money market	413	18%	427	21%
High yield corporate bonds	393	17%	254	13%
Hedge funds	117	5%	106	5%
Asset-backed securities	74	3%	-	-
Private equity	72	3%	-	-
Equity	8	0%	10	1%
Others	-	-	15	1%
Total	**2,336**	**100%**	**2,020**	**100%**

CAPITAL MANAGEMENT

Introduction

NN's Corporate Finance department manages the risk associated with NN's business activities through the management, planning and allocation of capital within NN. The Corporate Finance department also performs a treasury function, including the management and execution of capital markets transactions, term (capital) funding and risk management transactions.

The Corporate Finance department manages NN's capital on a pro-active basis and ensures that sufficient capital is available by setting targets and limits. Capital management takes into account the metrics and requirements of regulators (IGD Solvency I, Solvency 1.5, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, adjusted equity and fixed coverage ratio) and internal metrics such as AFR and economic capital. The ongoing assessment and monitoring of capital adequacy is embedded in the Corporate Finance department's capital planning process. Following the annual budgeting process, each year a capital plan reflecting NN's risk appetite and risk management strategy is prepared for NN as a whole and for each of its segments. This plan is updated on a quarterly basis, at which time the Corporate Finance department assesses whether additional management actions are required in order to maintain sufficient financial flexibility to meet NN's financial objectives. Among the Corporate Finance department's key priorities are ensuring that stand-alone companies are adequately capitalised based on local regulatory and rating agency requirements.

In order to provide comparable information given the disposal of all material insurance and investment management operations of NN in the United States, Latin America, and Asia/Pacific (excluding Japan) (see "*Business—Material Agreements—Acquisitions and disposals*"), the information presented in this section excludes the entities that were divested in 2013 and 2012 and therefore these entities are not included in the information presented as at 31 December 2012 and 2011. See the "Capital Management" section in the 2013 Annual Accounts for more information on NN's capitalisation.

Unconsolidated balance sheet information by segment

The table below sets out the unconsolidated balance sheet of the Issuer with investments in subsidiaries divided by segment. The value of each segment is based on the sum of the equity allocated to the entities per segment. See "*Important Information—Presentation of financial and other information*" on how NN calculates allocated equity per segment. The IFRS shareholder's equity for the Issuer is presented net of minorities, i.e. excluding the interests in subsidiaries not held by NN.

Unconsolidated balance sheet

(in millions of EUR)	Assets			Equity and liabilities			
	as at 31 December				as at 31 December		
	2013	**2012**	**2011**		**2013**	**2012**	**2011**
		(unaudited)				*(unaudited)*	
Allocated equity per segment							
Netherlands Life	9,491	10,424	10,049	Shareholder's equity	14,227	26,423	23,412
Netherlands Non-life	734	555	458				
Insurance Europe	1,898	2,082	1,720	Subordinated loans	2,892	2,947	4,367
Japan Life	1,259	1,523	1,369				
Investment Management	359	365	423	Debt in issue	-	694	2,855
Other	865	611	1,044	Borrowings from ING Groep and ING Bank	1,000	1,311	300
Ongoing business	**14,605**	**15,560**	**15,064**	Borrowings from subsidiaries	-	923	-822
Japan Closed Block VA	1,236	1,440	987	**Total financial debt holding**	**1,000**	**2,927**	**2,333**
Held for sale operations	168	17,111	16,486				
Insurance Other	186	366	394	Financial debt held for sale operations and ING U.S.	-	2,842	3,138
Cash capital position	1,363	-	-	**Total debt**	**3,892**	**8,716**	**9,838**
Net other assets of the holding	560	662	320				
Total	**18,119**	**35,139**	**33,250**	**Total**	**18,119**	**35,139**	**33,250**

The decrease in shareholder's equity to EUR 14,227 million as at 31 December 2013 from EUR 26,423 million as at 31 December 2012 was mainly due to (a) EUR 3,793 million unrealised negative revaluations of available-for-sale investments (net of deferred profit sharing) primarily in the bond portfolio due to higher market interest rates and (b) a EUR 8,784 million change in the composition of the Issuer related to the initial public offering of ING U.S. and the transfer of the remaining stake in ING U.S. to ING Groep on 30 September 2013 through a dividend in kind. These reductions in shareholder's equity were partly offset by a EUR 444 million net capital contribution from ING Groep.

Changes in the equity allocated to the segments in 2013 primarily relate to the following:

- The Netherlands Life and Netherlands Non-life segments received capital injections of EUR 600 million and EUR 215 million, respectively. The decrease in equity allocated to the Netherlands Life segment is mainly due to a decrease in the revaluation reserve primarily related to unrealised negative revaluations of available-for-sale investments in the bond portfolio (net of deferred profit-sharing) due to higher market interest rates. The decrease in equity allocated to the Insurance Europe segment reflects dividend payments and capital repayments to the Issuer. The equity allocated to the Japan Life segment was negatively impacted by the payment of a dividend to the Issuer and the weakening of the Japanese yen against the euro. A deferred acquisition costs write-down and the weakening of the Japanese yen against the euro contributed to the lower equity allocated to the Japan Closed Block VA segment.

- The equity allocated to the held for sale operations reduced following the divestments of Asian operations and the initial public offering of ING U.S. and the transfer of the remaining stake in ING U.S. to ING Groep. The cash capital position was formed in preparation of NN's separation from ING Groep to provide a buffer to cover interest payments, overhead expenses and potential capital injections into subsidiaries in a potential stress event. The senior debt decreased after the capital injection of EUR 1 billion by ING Groep.

Available capital, minimum required capital and local solvency ratios

The table below sets out the available capital, minimum required capital and solvency ratios for the larger insurance subsidiaries according to local regulatory capital frameworks.

Available capital, minimum required capital and local solvency ratios

	as at 31 December 2013			as at 31 December 2012
	(unaudited)			(unaudited)
(in millions of EUR / %)	**Available capital**	**Minimum required capital**	**Local solvency ratio**	**Local solvency ratio**
Legal entity	*EUR*	*EUR*	*%*	*%*
NN Life	5,875	2,647	222%	191%
NN Non-Life	632	242	261%	173%
NN Belgium Life	435	314	139%	132%
Nationale-Nederlanden Poland Pensions	134	118	113%	106%
Nationale-Nederlanden Poland Life	187	66	285%	247%
Nationale-Nederlanden Spain Life	206	130	158%	173%
NN Greece Life	86	53	161%	325%
NN Japan	1,175	86	1,366%	989%[1]
NN Investment Partners Holding	199	77	258%	328%
NN Re Netherlands	1,285	103	1,253%	320%

(1) Comparable capital ratio for NN Japan is at 31 March 2013, as the financial year for NN Japan runs from 1 April until 31 March.

LEGAL PROCEEDINGS

General

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

Because of the geographic spread of its business, NN may be subject to tax audits in numerous jurisdictions at any point in time. Although the Issuer believes that it has adequately provided for its tax positions, the ultimate outcome of these audits may result in liabilities that are different from the amounts recognised.

Dutch unit-linked products

Since the end of 2006, unit-linked products (commonly referred to in Dutch as '*beleggingsverzekeringen*') have received negative attention in the Dutch media, from the Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 NN's Dutch insurance subsidiaries reached an outline agreement with two main consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies had a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008 costs of the settlements were valued at EUR 365 million for which adequate provisions have been established and of which a substantial portion has been paid out. The remaining unpaid part of the provision as per 31 December 2013 is solely available to cover costs relating to the settlements agreed in 2008. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations, with the second main consumer protection organisation signing its agreement in June 2012. In addition, NN's Dutch insurance subsidiaries announced additional measures (*flankerend beleid*) that comply with the 'Best in Class' criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an additional agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about the compensation. The agreements with the two consumer protection organisations are not binding on policyholders.

Consequently, neither the implementation of the compensation schemes nor the additional measures offered by NN prevent individual policyholders from initiating legal proceedings against NN's Dutch insurance subsidiaries and making claims for damages.

In November 2013, the so-called 'Vereniging Woekerpolis.nl', an association representing the interests of policyholders, initiated a so-called 'collective action', requesting the District Court in Rotterdam to declare that NN's Dutch insurance subsidiaries sold products in the market, which are defective in various respects (e.g. on transparency regarding cost charges and other product characteristics, and included risks for which the insurer failed to warn, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to difference in geometric versus arithmetic returns). NN's Dutch insurance subsidiaries have rejected these claims and will defend themselves in these proceedings.

Apart from the aforementioned 'collective action', several other claim organisations and initiatives were established on behalf of policyholders, such as the organisation Wakkerpolis. This organisation primarily concentrates on the recovery of initial costs for policyholders, based on an interim ruling of the KiFiD issued on 13 May 2013 in an individual case. In this case, the KiFiD concluded that there is no contractual basis for charging initial costs (which are costs charged to the policy during a limited period of time). Apart from the initial costs, it can be derived from the interim ruling – in accordance with past rulings of the KiFiD – that an insurer is obliged to warn against the leverage and capital consumption effect (which is the effect caused by the dependency of life insurance premium on the value of the policy; the lower the value of the policy, the higher the life insurance premium). NN believes that this interim ruling is incorrect on several legal grounds.

In proceedings pending before the District Court in Rotterdam, the Court has upon request of the parties, including NN, submitted preliminary questions to the European Court of Justice to obtain clarity on principal legal questions with respect to cost transparency related to unit-linked policies. The main preliminary question is whether European law allows for the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. Although the European Court does not decide on the applicable standards in specific cases, NN believes the ruling of the Court of Justice can give clarification on this question of legal principle which is subject of other legal proceedings in the Netherlands. It is expected that the European Court of Justice will render its judgment at the earliest in 2014.

NN's Dutch insurance subsidiaries have issued, sold or advised on approximately one million individual unit-linked policies. There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed. The financial consequences of any of the aforementioned factors or a combination thereof can be substantial for the Dutch insurance business of NN and may affect NN, both financially and reputationally. However, these consequences cannot be reliably estimated or quantified at this point.

Appeal regarding ING's EC Restructuring Plan

In January 2010, ING Groep lodged an appeal with the European General Court against specific elements of the EC's decision regarding the 2009 Restructuring Plan. In its appeal, ING Groep contested the way the EC has calculated the amount of state aid ING received, the disproportionality of the price leadership restrictions and the disproportionality of restructuring requirements. On 2 March 2012, the European General Court handed down its judgment in relation to ING Groep's appeal and annulled part of the EC's state aid decision. Subsequently, the EC filed an appeal against the European General Court's judgment before the European Court of Justice. In parallel, the EC adopted a decision on 11 May 2012 that re-approved the state aid granted to ING Groep as compatible with the internal market on the basis of the 2009 Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the 2009 Restructuring Plan.

On 24 July 2012, ING Groep announced that the Dutch State and ING Groep were in dialogue with the EC on an amendment and update of the 2009 Restructuring Plan to be submitted to the EC. However, in order to safeguard its legal rights, ING Groep filed an appeal with the European General Court against the EC's decision of 11 May 2012, which re-approved the 2009 Restructuring Plan.

On 19 November 2012, ING Groep and the Dutch State reached an agreement with the EC on certain amendments to the 2009 Restructuring Plan, as set out in the 2012 Restructuring Plan (which was formally approved by an EC decision of 16 November 2012). With this agreement, the EC closed its investigation as announced on 11 May 2012 and ING Groep withdrew its appeal filed in July 2012 at the European General Court. For principal legal reasons the EC continues with its appeal against the European General Court ruling of March 2012. However, the outcome of this appeal will not affect the EC approval to the EC Restructuring Plan. It is expected that a judgment will be rendered in April 2014. In November 2013, ING Groep and the Dutch State reached agreement with the EC on the 2013 Restructuring Plan. The EC Restructuring Plan is further described under "*Supervision and Regulation—EC Restructuring Plan*".

Stichting Collectieve Actie Pensioengerechtigden ING Nederland – ING Groep, the Issuer, certain of their Dutch subsidiaries and the ING Pension Fund

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (*Stichting Collectieve Actie Pensioengerechtigden ING Nederland*), together with two trade unions (*FNV Bondgenoten* and *CNV Dienstenbond*) and a number of individual pensioners, instituted legal proceedings against ING Groep's decisions not to provide funding for indexing pensions insured with the Dutch ING pension fund (*Stichting Pensioenfonds ING*) (the **ING Pension Fund**) in 2009, 2010 and 2011. This claim was rejected by the district court of Amsterdam on 9 November 2012. An appeal was lodged against this court decision. It is not currently feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome may result in liabilities and provisions for such liabilities that are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

Belangenvereniging ING-Directiepensioenen – ING Groep, the Issuer and certain of their Dutch subsidiaries

In July 2011, the Interest Group ING General Managers' Pensions (*Belangenvereniging ING-Directiepensioenen*), together with a number of individual retired Dutch general managers of ING Groep, the Issuer and certain of their Dutch subsidiaries, also instituted legal proceedings against ING Groep's decision not to provide funding for indexing Dutch general managers' pensions directly insured with Nationale-Nederlanden in 2010 and 2011. This claim was rejected by the district court of Amsterdam on 22 October 2012. An appeal was lodged against this court decision. It is not currently feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome may result in liabilities and provisions for such liabilities that are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

ING Pension Fund – ING Groep, the Issuer and certain of their Dutch subsidiaries

In April 2013, the ING Pension Fund started arbitration proceedings to adjudicate a dispute with ING Groep, the Issuer and certain of their Dutch subsidiaries concerning the adjusted mortality tables used in the calculation of premiums and provisions. In 2013 ING Groep decided to lower its contributions by 1.7% as a result of ING Groep not accepting the adjustments made by the ING Pension Fund resulting from the mortality tables used. In February 2014 the ING Pension Fund and ING Groep agreed that the ING Pension Fund will remain using a surcharge of 1.7% and the ING Pension Fund and ING Groep will share the costs of the 1.7% surcharge over 2013. The payment of 50% of the surcharge 2013 by ING Groep is included in the payment by ING Groep of the one-time lump sum to the ING Pension Fund, which was closed for the accrual of new pension benefits as of 1 January 2014, of EUR 379 million to release ING Groep from future financial obligations. See also "*Business—Material agreements—ING Pension Fund agreement*".

In July 2013, the ING Pension Fund started arbitration proceedings against ING Groep's decision not to provide funding (for a total amount of EUR 197.5 million) for indexing pensions insured with the ING Pension Fund as of 1 January 2013. During the arbitration proceedings the ING Pension Fund added a claim in the amount of EUR 38.8 million for funding the indexation as of 1 August 2013. On 20 December 2013, the arbitrators ruled in favour of the ING Pension Fund and concluded that ING Groep will have to provide full funding for both the indexation as of 1 January 2013 and the indexation as of 1 August 2013. The outcome of the arbitration is reflected in the Issuer's financial statements for the year ended 31 December 2013.

Regulatory industry review

Following a recent broad industry review by the Dutch regulator DNB, the Issuer's subsidiary Nationale-Nederlanden Schadeverzekering Maatschappij N.V. was instructed to strengthen its policies and procedures in respect of sanctions-related customer screening and related compliance matters. Nationale-Nederlanden Schadeverzekering Maatschappij N.V. is currently in the process of implementing DNB's recommendations.

MATERIAL AGREEMENTS

The following are agreements (other than those entered into in the ordinary course of business) that have been entered into by any member of NN within the two years immediately preceding the date of this Prospectus which are material or which have been entered into by any member of NN at any other time and which contain provisions under which any member of NN has an obligation or entitlement that is material to NN's ability to meet its obligation to the Noteholders in respect of the Notes and the acquisitions and disposals of or by any of the Issuer's direct or indirect subsidiaries which have taken place in 2013, 2012 and 2011.

Acquisitions and disposals

Disposals announced but not yet closed

- ***ING Investment Management Taiwan***: On 10 January 2014, ING Insurance International II B.V. and ING Insurance Asia N.V., wholly owned indirect subsidiaries of the Issuer, entered into a share sale and purchase agreement, as sellers, with Alpha Magnus Investments Limited, Skyline Investments Holding Limited, Professional Analytics and Services Limited and Nomura Asset Management Co. Ltd. for the sale of ING Securities Investment & Trust Company Limited, NN's Taiwanese asset management business. The transaction is not expected to have a material impact on the Issuer's results. The transaction is subject to regulatory approval and is expected to close in the first half of 2014.
- ***ING-BOB Life***: On 8 July 2013, ING Insurance International II B.V. as seller and ING Verzekeringen N.V. as seller's guarantor entered into a share sale and purchase agreement with BNP Paribas Cardif, the insurance arm of BNP Paribas, as purchaser providing for the sale of ING Insurance International II B.V.'s 50% shareholding in its Chinese insurance joint venture ING-BOB Life Insurance Company Ltd. The transaction is subject to regulatory approval and is expected to close in the first half of 2014.

Disposals closed in 2014

- ***SulAmérica***: On 18 November 2013, ING Insurance International B.V. as seller entered into a sale and purchase agreement with Swiss Re Group as purchaser on the sale of an 11.3% direct stake in SulAmérica, further reducing its stake in the Brazilian insurer to 10%. The sale was completed in January 2014. ING Insurance International B.V. sold 37.7 million SulAmérica units for a total cash consideration of EUR 176 million (at then prevailing exchange rates). The transaction resulted in a net gain to NN of EUR 56 million, which represents the difference between the book value and the fair value for both the 11.3% stake in scope of the transaction with Swiss Re and the approximate 10% stake retained by NN.

  In preparation for a stand-alone future of NN, the approximate 10% stake in SulAmérica held by ING Insurance International B.V. was transferred to ING Groep as at 31 January 2014. The stake was distributed by ING Insurance International B.V. to its sole shareholder ING Verzekeringen N.V., followed by a distribution by ING Verzekeringen N.V. to its sole shareholder ING Insurance Topholding N.V. (old name; now: the Issuer), followed by a distribution by ING Insurance Topholding N.V. to its sole shareholder ING Groep. All distributions were made at the expense of the freely distributable reserves at carrying value in the amount of EUR 139 million. Since 31 January 2014, NN has no interest in SulAmérica.

NN has been indemnified by ING Groep against any liabilities arising from these disposals (see "*Business—Material Agreements—Indemnification and allocation agreement*").

Acquisition closed in 2013

- ***WestlandUtrecht Bank***: Pursuant to the 2012 Restructuring Plan, ING Groep committed to combine the commercial operations of WUB with the retail banking activities of Nationale-Nederlanden. In order to fulfil this commitment, Nationale-Nederlanden Bank N.V. acquired all outstanding shares in WestlandUtrecht Effectenbank N.V. and Nationale-Nederlanden Financiële Diensten B.V. from WUB. In addition, Nationale-Nederlanden Bank N.V. acquired certain business assets from WUB, which mainly included IT systems. The total consideration for the transferred entities and assets amounted to approximately EUR 34 million. Furthermore, all rights relating to certain pre-selected mortgage receivables with a nominal value of EUR 3.8 billion, which were originated by Nationale-Nederlanden Levensverzekering Maatschappij N.V. for the account and risk of Nationale-Nederlanden Hypotheekbedrijf N.V., were sold and transferred to Nationale-Nederlanden Bank N.V. for book value. These transactions were closed on 1 July 2013 and have been agreed in several agreements between the relevant entities. These agreements contain certain limited representations and warranties regarding the transferred entities and mortgage receivables in favour of NN Bank, in line with the nature of the transaction as an inter-company transaction.

  In addition, Nationale-Nederlanden Bank N.V. and Nationale-Nederlanden Levensverzekering Maatschappij N.V. on the one hand and WUB, Nationale-Nederlanden Hypotheekbedrijf N.V and RVS Hypotheekbank N.V. on the other hand, entered into a cooperation agreement on 1 July 2013. This agreement covers the management of mortgage loans that Nationale-Nederlanden Bank N.V. performs on behalf of Nationale-Nederlanden Hypotheekbedrijf N.V. and RVS Hypotheekbank N.V. Furthermore, this agreement deals with the process and valuation criteria for recurring transfers of mortgage receivables from Nationale-Nederlanden Hypotheekbedrijf to NN Bank as of 1 July 2013. This agreement has been entered into for an indefinite time and can be terminated for the first time from 31 December 2015, with a prior notice period of 18 months.

Disposals closed in 2013

- ***Insurance business in Hong Kong, Macau and Thailand***: On 19 October 2012, ING Insurance Asia N.V. as seller and ING Verzekeringen N.V. as seller's guarantor entered into a share sale and purchase agreement with PCG Financial Services Holdings (Singapore) PTE Ltd., as the purchaser, providing for the sale of ING Insurance Asia N.V.'s shares in ING Life Public Company Ltd., Siam Sattabodee Ltd., Siam Siharaj Ltd. and ING Management Holdings (HK) Ltd., which are companies that comprise the Issuer's life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and its life insurance operation in Thailand. The combined consideration amounted to USD 2.1 billion (approximately EUR 1.6 billion) in cash. The transaction closed on 28 February 2013. A net gain of approximately EUR 950 million was recognised by ING Insurance Asia N.V. in 2013.
- ***ING Vysya Life Insurance***: On 19 March 2013, ING Insurance International B.V. as seller entered into a share sale and purchase agreement with its joint venture partner Exide Industries Ltd., providing for the sale of its 26% shareholding in the joint venture ING Vysya Life Insurance Company Ltd. to Exide Industries Ltd. On 22 March 2013, the sale was completed. Since it was expected that the transaction would result in a loss, the related goodwill was reduced by EUR 15 million in the fourth quarter of 2012.
- ***Malaysian investment management business***: On 12 December 2012, IFB Management Holdings Sdn Bhd., a wholly owned subsidiary of the Issuer as seller entered into a share sale and purchase agreement with Kenanga Investors Berhad (Kenanga Investors), a wholly owned subsidiary of K & N Kenanga Holdings Berhad, as purchaser, providing for the sale of its 70% shareholding stake in ING Funds Berhad (IFB), which was the Issuer's investment management business in Malaysia. Tab Inter-Asia Services Sdn Berhad also agreed to sell its 30% shareholding in IFB to Kenanga Investors. The sale was completed in April 2013.
- ***Thai investment management unit***: On 19 November 2012, ING Investment Management (Asia Pacific) B.V. as seller and ING Verzekeringen N.V. as seller's guarantor entered into a share sale and purchase agreement with UOB Asset Management Ltd., as purchaser, providing for the sale of all outstanding shares in lNG Funds

(Thailand) Company Ltd., the Issuer's investment management business in Thailand. The transaction was completed in May 2013. Under the terms agreed, NN received a total cash consideration of EUR 10 million.

- ***ING Financial Services Private Limited***: In July 2013, ING Investment Management (Asia Pacific) B.V., an indirect wholly owned subsidiary of the Issuer, completed the sale of its interest in the joint venture ING Financial Services Private Limited to Hathway Investments. The share sale and purchase agreement regarding ING Financial Services Private Limited had been signed on 17 April 2013.
- ***SulAmérica***:
  - *Larragoiti family*: On 27 February 2013, ING Insurance International B.V. as seller entered into a sale and purchase agreement with the Larragoiti family, a majority shareholder and NN's joint venture partner in SulAmérica, as purchaser, for the sale of approximately 7% of SulAmérica's outstanding shares. The transaction, which also included a share-swap, was completed in December 2013. The existing shareholders' agreement with the Larragoiti family was terminated at closing. ING Insurance International B.V. will continue to participate in the board of directors of SulAmérica as long as it holds at least 10% of the shares.
  - *International Finance Corporation*: On 16 May 2013, ING Insurance International B.V. as seller entered into a sale and purchase agreement with International Finance Corporation as purchaser regarding the sale of approximately 7.9% of SulAmérica's outstanding shares for a total consideration of approximately EUR 140 million. This sale was completed in June 2013.

  NN has been indemnified by ING Groep against any liabilities arising from these disposals (see "*Business—Material Agreements—Indemnification and allocation agreement*").
- ***KB Life***: On 19 April 2013, ING Insurance International II B.V. as seller entered into a share sale and purchase agreement with its joint venture partner KB Financial Group, Inc., one of Korea's leading financial institutions, as purchaser, providing for the sale of ING Insurance International II B.V.'s 49% shareholding in Korean insurance venture KB Life Insurance Company Ltd. to KB Financial Group. The sale was completed in June 2013. ING Insurance International II B.V. received a total cash consideration of KRW 166.5 billion (approximately EUR 115 million at then prevailing exchange rates).
- ***ING U.S.***: In May 2013, ING Insurance International B.V. sold 25% of the common stock in the initial public offering of ING U.S., its U.S.-based retirement, investment and insurance business. The shares began trading on 2 May 2013 on the New York Stock Exchange under the ticker symbol "VOYA". The initial public offering of ING U.S. consisted of both a primary component of shares offered by ING U.S. and a secondary component of shares offered by NN. The total offering amounted to USD 1,385 million. In May 2013, the underwriters exercised in full their overallotment option. The sale of additional shares further reduced NN's ownership in ING U.S. from 75% to approximately 71% of the common stock of ING U.S. The gross proceeds from the exercise of the option were approximately USD 191 million.

  In preparation for a stand-alone future of NN, approximately 71% of the common stock of ING U.S. held by ING Insurance International B.V. was transferred to ING Groep as at 30 September 2013. Following a transfer of the legal title of the common stock to ING Verzekeringen N.V., the common stock was distributed by ING Verzekeringen N.V. to its sole shareholder ING Insurance Topholding N.V. (old name; now: the Issuer), followed by a distribution of the common stock by ING Insurance Topholding N.V. to ING Groep. Both distributions were made at the expense of the freely distributable reserves. NN's shareholding in ING U.S. of approximately 71% was transferred to ING Groep at carrying value by way of a distribution to ING Groep at the expense of the Issuer's freely distributable reserves in the amount of EUR 6,827 million, lowering the Issuer's shareholder's equity by the same amount. Since 30 September 2013, NN has no interest in ING U.S.

  NN has been indemnified by ING Groep against any liabilities arising from the initial public offering of ING U.S. (see "*Business—Material Agreements—Indemnification and allocation agreement*").
- ***ING Australia Holdings Limited***: On 30 September 2013, ING Insurance International B.V. sold and transferred its shares in ING Australia Holdings Limited to ING Bank at net asset value and assigned to ING Bank its outstanding debt, including accrued interest, with ING Australia Holdings Limited.

- ***Mexican mortgage business***: On 14 June 2013, Conglomerado de Valores, S.A. de C.V. as seller, an indirect wholly owned subsidiary of the Issuer, entered into a share sale and purchase agreement with Banco Santander (México) S.A., as purchaser, providing for the sale of its shares in ING Hipotecaria, S.A. de C.V., the Issuer's mortgage business in Mexico, to Banco Santander (México) S.A. The transaction completed in November 2013.

  NN has been indemnified by ING Groep against any liabilities arising from this disposal (see "*Business—Material Agreements—Indemnification and allocation agreement*").

- ***ING Life Korea***: On 26 August 2013, ING Insurance International II B.V. as seller and ING Verzekeringen N.V. as seller's guarantor entered into a share sale and purchase agreement with a subsidiary of MBK Partners, a Korean private equity firm, as purchaser, providing for the sale of the seller's shares in ING Life Insurance (Korea) Ltd., the Issuer's indirect wholly owned life insurance business in South Korea, for a total purchase price of approximately KRW 1.84 trillion (EUR 1.27 billion at then prevailing exchange rates). The sale was completed in December 2013. As part of the transaction, Korean Investment Fund B.V., a wholly owned indirect subsidiary of the Issuer, acquired an indirect stake of approximately 10% in ING Life Korea, equivalent to approximately EUR 80 million (at then prevailing exchange rates). ING Groep has entered into a brand licensing agreement that will allow ING Life Korea to continue to operate under the ING brand for a maximum period of five years. In addition, over the course of one year, ING Insurance International II B.V. will continue to provide technical support and advice to ING Life Korea. The transaction resulted in an after-tax loss for NN of approximately EUR 989 million, of which EUR 944 million was recorded in the third quarter of 2013.

- ***China Merchants Fund***: On 24 October 2012, ING Asset Management B.V. as seller entered into a share sale and purchase agreement with its joint venture partners China Merchants Bank Co., Ltd. and China Merchants Securities Co., Ltd., as purchasers, providing for the sale of ING Asset Management B.V.'s 33.3% shareholding in China Merchants Fund, an investment management joint venture. Under the terms agreed, ING Asset Management B.V. received a total cash consideration of approximately EUR 98 million. The transaction completed in December 2013. ING Asset Management B.V. realised a net gain of approximately EUR 59 million.

- ***Investment management business in South Korea***: On 9 July 2013, ING Insurance International B.V., a wholly owned subsidiary of the Issuer as seller and ING Verzekeringen N.V. as seller's guarantor entered into a share sale and purchase agreement with Macquarie Group, an Australia-based global provider of financial services, providing for the sale of the shares in ING Investment Management Korea, Ltd., ING Insurance International B.V.'s investment management business in South Korea, to Macquarie Group. The transaction completed in December 2013.

Disposal closed in 2012

- ***Insurance businesses in Malaysia***: On 17 December 2012, ING Insurance Asia N.V. as seller and ING Verzekeringen N.V. as seller's guarantor entered into a share sale and purchase agreement with American International Assurance Company, Ltd., providing for the sale of the shares in ING Management Holdings (Malaysia) Sdn Bhd. (the Issuer's insurance operations in Malaysia, which include its life insurance business, its market-leading employee benefits business and a 60% stake in ING Public Takaful Ehsan Berhad) to American International Assurance Company, Ltd. ING Insurance Asia N.V. received a total cash consideration of EUR 1.3 billion. The transaction was completed in December 2012 with a net transaction gain of EUR 745 million after tax.

Disposals closed in 2011

- ***Pacific Antai Life Insurance Company Ltd.***: In June 2011, ING Insurance International B.V. completed the sale of its entire stake in China's Pacific Antai Life Insurance Company Ltd. to China Construction Bank for a consideration of EUR 82 million and a net profit of EUR 28 million. The equity transfer agreement regarding China's Pacific Antai Life Insurance Company Ltd. had been signed on 29 December 2009.

- ***Mexican leasing business***: In September 2011, Conglomerado de Valores, S.A. de C.V., an indirect wholly owned subsidiary of the Issuer, completed the sale of ING Arrendadora, S.A. de C.V., its Mexican leasing business, to Grupo Financiero Ve por Más. The share sale and purchase agreement regarding ING Arrendadora, S.A. de C.V. had been signed on 10 March 2011.

NN has been indemnified by ING Groep against any liabilities arising from this disposal (see "*Business—Material Agreements—Indemnification and allocation agreement*").

- ***ING Investment Management Australia***: In October 2011, ING Insurance International B.V. completed the sale of ING Investment Management Limited, its Australian investment management business to UBS AG. ING Investment Management Australia's business provided a number of investment strategies and products directly to the Australian institutional and wholesale markets. The share sale and purchase agreement regarding ING Investment Management Limited had been signed on 30 June 2011.
- ***Latin American pensions, life insurance and investment management operations***: In December 2011, ING Insurance International B.V. completed the sale of its Latin American pensions, life insurance and investment management operations for a total consideration of EUR 2.64 billion to Grupo de Inversiones Suramericana. Under the terms of the agreement, ING Insurance International B.V. received EUR 2.57 billion in cash and Grupo de Inversiones Suramericana assumed EUR 65 million in debt. Included in the transaction were the mandatory pension and voluntary savings businesses in Chile, Colombia, Mexico, Uruguay and ING Insurance International B.V.'s 80% stake in AFP Integra S.A. in Peru (the life insurance businesses in Chile and Peru). As part of this transaction ING Insurance International B.V. sold its 33.7% stake in Peruvian InVita Seguros de Vida S.A. to the Wiese family. The transaction also included the local investment management capabilities in the five above-mentioned countries. The sale resulted in a net profit of approximately EUR 995 million.

  NN has been indemnified by ING Groep against any liabilities arising from these disposals (see "*Business—Material Agreements—Indemnification and allocation agreement*").

Compensation schemes

The Issuer's Dutch subsidiaries have agreed with two main Dutch consumer protection organisations upon a compensation scheme that provides for compensation to unit-linked policyholders. See "*—Legal Proceedings—Dutch unit-linked products*".

ING Pension Fund agreement

As of 1 January 2014, two new defined contribution pension plans for Dutch employees, one for employees of ING Bank and one for employees of NN, replaced the pensions plans for employees of ING Groep as provided for by the ING Pension Fund which closed on 31 December 2013. All benefits as accrued up to 31 December 2013 in the ING Pension Fund have been made paid-up (*premievrije aanspraken*).

In February 2014 several subsidiaries of ING Groep, including several subsidiaries of the Issuer, the ING Pension Fund and the trade unions (CNV Dienstenbond, FNV Finance and De Unie) reached agreement on the transfer of all future funding and indexation obligations towards the ING Pension Fund. The agreement contains the following:

- ING fully financed the indexation 2014, being 0% for the active employees of NN and 0.9% for the inactive employees (pensioners and deferred members) based upon the price index. The total payment (including the ING indexation) amounted to EUR 330 million of which EUR 39 million for NN.
- As of 1 January 2015 the paid-up benefits with the ING Pension Fund will be indexed as follows:
  - the accrued benefits of deferred participants and pensioners inactive on 31 December 2013 will conditionally be indexed on a yearly basis in line with the development of the consumer price index up to 3%;
  - the accrued benefits of deferred participants and pensioners who terminated their employment with ING or NN before 1 January 2002, who were entitled to a conditional indexation in line with the structural raises of the general bank collective labour agreement, will be conditionally indexed in line with the structural raises of the NN collective labour agreement;

  - in order to make it possible for the ING Pension Fund to index the accrued benefits of the participants active on 31 December 2013 on a yearly basis with the percentage of the structural raises of the NN collective labour agreement as long as these participants remain in service of NN, ING paid the ING Pension Fund a one-time lump sum of EUR 170 million of which EUR 51 million for NN.

- ING paid a one-time lump sum to the ING Pension Fund of EUR 379 million to be released from its future financial obligations (i.e. the obligation to finance indexations as of 1 January 2015 and the obligation to restore the coverage ratio of the ING Pension Fund) towards the ING Pension Fund of which EUR 121 million for NN. Consequently, ING Bank and NN are no longer jointly and severally liable for the funding of the obligations of the ING Pension Fund.
- ING will reduce the employees' own contribution to the pension premium under the new defined contribution plan by a total amount of approximately EUR 80 million over a six year period of which a total amount of approximately EUR 20 million for NN.

The removal of the net pension asset related to the ING Pension Fund from NN's balance sheet, NN's contribution to the payment to the ING Pension Fund of EUR 211 million and the reduction of the employees' own contribution to the pension premium result in a charge to be recognised, as a special item, in the results over the first quarter of 2014. See "*General Information—Recent developments*".

Master claim agreement

In 2012, ING Groep, ING U.S. and ING Insurance Eurasia N.V. (**ING Insurance Eurasia**) entered into a master claim agreement to (a) allocate existing claims between these three parties and (b) agree on criteria for how to allocate future claims between the three parties. The master claim agreement contains further details on claim handling, conduct of litigation and dispute resolution.

Relationship agreement

After completion of the Share Offering, ING Groep is expected to continue to own a significant number of the Ordinary Shares. To govern certain aspects of the continuing relationship between the Issuer and ING Groep, the Issuer expects to enter into a relationship agreement with ING Groep, which will include, amongst other matters, arrangements regarding the composition of the Management Board and the Supervisory Board, governance practices and the exchange of certain business and financial information between NN and ING Groep. Further, the Issuer and ING Groep expect to agree capital management, risk management and dividend policies at the time of the envisaged Share Offering. The base case for divesting the Issuer is an initial public offering of Ordinary Shares via the envisaged Share Offering. However, all options remain open and uncertainty remains as to whether the envisaged Share Offering will occur at all, and if so, when.

Indemnification and allocation agreement

ING Groep and NN have entered into an indemnification and allocation agreement, in which ING Groep has agreed to indemnify NN for certain liabilities that relate to the business of or control over certain (former) U.S. and Latin American subsidiaries of the Issuer in the period until 30 September 2013 or, if the relevant subsidiary was divested by NN after 30 September 2013, such later date of divestment. These liabilities mainly include contingent liabilities that may arise as a result of the initial public offering of ING U.S. (such as prospectus liability) and the sales of the Latin American businesses (such as claims under warranties and other buyer protection clauses), the liabilities for the claims concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN in Mexico, which claim was settled in March 2014, and the claims filed by the purchaser of certain Mexican subsidiaries of NN claiming that the financial condition of the subsidiaries was not accurately depicted. See the segments Other and Insurance Other in "*—Business Segments*".

11. MANAGEMENT BOARD, SUPERVISORY BOARD AND EMPLOYEES

General

The Issuer has a two-tier board structure consisting of the Management Board (*raad van bestuur*) and a supervisory board (*raad van commissarissen*) (the **Supervisory Board**). The Management Board is the executive body and is responsible for the day-to-day management of the Issuer, its strategy and its operations, under the supervision of the Supervisory Board. The Management Board is required to keep the Supervisory Board informed, to consult with the Supervisory Board on important matters and to submit certain important decisions to the Supervisory Board for its approval. When performing their duties, the members of the Management Board and the Supervisory Board shall carefully consider, and act in accordance with, the interests of the Issuer and the business connected with it, taking account of the relevant interests of all the stakeholders of the Issuer.

The business address of all members of both the Management Board and Supervisory Board is the registered address of the Issuer at Amstelveenseweg 500, 1081 KL Amsterdam, the Netherlands.

Management Board

Members of the Management Board

The Management Board is currently composed of Ralph Hamers (chairman), Lard Friese (vice-chairman), Delfin Rueda, Doug Caldwell, Patrick Flynn, Wilfred Nagel and Dorothee van Vredenburch. The Issuer expects that the composition of the Management Board will change at or prior to the envisaged Share Offering.

The members of the Management Board have also served as members of the management board of ING Verzekeringen N.V., which ceased to exist following the legal merger between the Issuer and ING Verzekeringen N.V.; see "*General Information*".

The following table sets forth the composition of the Management Board as at the date of this Prospectus.

Management Board

Name	Position	Age
Ralph A.J.G. Hamers	Chairman, CEO	47
E. (Lard) Friese	Vice-Chairman	51
Delfin Rueda Arroyo	CFO	49
S.D. (Doug) Caldwell	CRO	44
Patrick G. Flynn		53
W.F. (Wilfred) Nagel		57
Dorothee E. de Graaff-van Vredenburch		49

Ralph A.J.G. Hamers was appointed as member of the Management Board from 13 May 2013. He has served as chairman of the Management Board since 1 October 2013. Mr Hamers is also a member of the executive boards of ING Groep, ING Bank and ING Insurance Eurasia and until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. he was a member of the management board of ING Verzekeringen N.V., all since 13 May 2013. On 1 October 2013 he succeeded Jan Hommen as chairman and chief executive officer of these companies. Mr Hamers has been employed by ING since 1991 in various positions, most recently as chief executive officer of ING Belgium and Luxembourg from 2011 to 2013 and as head of Network Management for Retail Banking Direct and International from 2010 to 2011. Mr Hamers holds a Master of Science degree in Business Econometrics/Operations Research from Tilburg University (the Netherlands). Mr Hamers is Dutch.

E. (Lard) Friese was appointed as member and vice-chairman of the Management Board from 1 March 2014. From 1 October 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. he was a member and vice-chairman of the management board of ING Verzekeringen N.V. He has been a member of the management board of ING Insurance Eurasia from 30 March 2011. Mr Friese is responsible for the business strategy, performance and day-to-day operations of NN. Mr Friese has been employed by ING since 2008 in various positions. He was appointed CEO of Nationale-Nederlanden and chairman of the Dutch Intermediary Division (Nationale-Nederlanden, Movir, Westland Utrecht) on 1 September 2008. In 2009 he became CEO ING Insurance Benelux responsible for the whole of ING Insurance's operations in the Benelux. He was appointed to the management board of ING Verzekeringen N.V. with responsibility for the Insurance operations in the Benelux, Central and Rest of Europe and Asia/Pacific on 1 January 2011. On 30 March 2011 he was appointed to the management board of ING Insurance Eurasia with the same responsibilities. As of 1 July 2013 he also assumed responsibility for Investment Management in the management board of ING Insurance Eurasia. From 2006 to 2008 Mr Friese was employed by Ceska Pojistovna a.s. (Prague, Czech Republic) as chief executive officer and vice-chairman of the board of directors and was a member of the executive committee of Generali PPF Holding (Prague, Czech Republic). From 2003 to 2006 Mr Friese was employed by VNU/ACNielsen (Brussels, Belgium) as senior vice president and chief retail services officer Europe and he was a member of the European board. Before that, from 1993 to 2003, he worked at Aegon N.V. as a member of the board of directors of Aegon Levensverzekering N.V. (life insurance) in The Hague, the Netherlands and as senior vice-president of Aegon The Netherlands in Tokyo, Japan. Between 1988 and 1993 Mr Friese held various positions at insurance company NOG Verzekeringen (Amsterdam, the Netherlands). Mr Friese began his career in 1986 as a (junior) tax consultant at Kammer Luhrmann Van Dien & Co (now PwC) in Utrecht and Arnhem, the Netherlands. Mr Friese holds a Master of Laws degree from Utrecht University (the Netherlands). Mr Friese is Dutch.

Delfin Rueda Arroyo was appointed to the Management Board as chief financial officer from 1 March 2014. From 1 October 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. he was a member of the management board and chief financial officer of ING Verzekeringen N.V. Mr Rueda has served as chief financial officer and as a member of the management board of ING Insurance Eurasia from 1 November 2012. Mr Rueda is responsible for NN's finance departments and investor relations. Prior to joining ING in November 2012, Mr Rueda served as chief financial and risk officer and as a member of the management board at Atradius (2005-2012). From 2000 to 2005, Delfin Rueda served as senior vice-president of Financial Institutions Group, Corporate Finance at J.P. Morgan. Prior to that, from 1993 to 2000, he was executive director of Financial Institutions Group, Corporate Finance at UBS Investment Bank. Mr Rueda began his career with Andersen Consulting, which later became Accenture, as (senior) consultant in strategic management services from 1987 to 1991. Mr Rueda has a degree in Economic Analysis and Quantitative Economics from the Complutense University of Madrid (Spain) and an MBA with a Finance major from the Wharton School, University of Pennsylvania (U.S.). Mr Rueda is Spanish.

S.D. (Doug) Caldwell was appointed to the Management Board as chief risk officer from 1 March 2014. From 1 October 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. he was a member of the management board and chief risk officer of ING Verzekeringen N.V. Since 1 December 2012, he has been chief risk officer and member of the management board of ING Insurance Eurasia. Mr Caldwell is responsible for NN's overall risk framework with direct responsibility for the risk management departments. Mr Caldwell has been employed by ING since 1999 in various positions. From 2010 to 2012, he was chief risk officer of ING Insurance Asia Pacific, Hong Kong. Prior to joining ING, Mr Caldwell served as consultant at Ernst & Young Accountants LLP in Atlanta (from 1990 to 1996) and as valuation actuary at ARM Financial Group in Louisville (from 1996 to 1999). Mr Caldwell has a degree in Mathematics from Auburn University (U.S.); he is a Fellow of the Society of Actuaries and is a Chartered Enterprise Risk Analyst. Mr Caldwell is a U.S. citizen.

Patrick G. Flynn was appointed as member of the Management Board from 29 March 2011. From 29 March 2011 until 1 March 2014 he was chief financial officer of the Issuer. From 27 April 2009 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. he was a member of the management board of ING Verzekeringen N.V. Mr Flynn also serves as a member and chief financial officer on the executive boards of ING Groep and ING Bank. He is also a member of the management board of ING Insurance Eurasia, from 30 March 2011. Prior to joining ING, Mr Flynn was employed by HSBC from 1989 to 2009 serving as chief financial officer for HSBC's banking and insurance operations in South America from 2002 to 2007, and ultimately advanced to chief financial officer of HSBC's London-based global insurance business from 2007 to 2009. From 1984 to 1989 he was employed by KPMG in Dublin, Ireland. Mr Flynn holds a Bachelor's degree in Business Studies from Trinity College Dublin (Ireland). Further, he is a fellow of the Institute of Chartered Accountants, Ireland and a member of the Association of Corporate Treasurers (UK). Mr Flynn is Irish.

W.F. (Wilfred) Nagel was appointed a member of the Management Board from 5 October 2011. From 5 October 2011 until 1 March 2014 he was chief risk officer of the Issuer. From 5 October 2011 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. he was a member of the management board of ING Verzekeringen N.V. He also serves as a member and chief risk officer on the executive boards of ING Groep and ING Bank from 14 May 2012 and 5 October 2011, respectively. Mr Nagel is chief risk officer of ING Groep. Mr Nagel is a member of the management board of ING Insurance Eurasia from 5 October 2011. Mr Nagel has been employed by ING since 1991 in various positions. From January 2010 to October 2011 he was chief executive officer of ING Bank Turkey and from 2005 to 2010 he was chief executive officer of ING Wholesale Bank Asia. From 1981 to 1991 he was employed by ABN AMRO Bank N.V. (and its predecessor Amro Bank), most recently as head of Aerospace and Structured Finance. Mr Nagel holds a Master's degree in Economics from VU University Amsterdam (the Netherlands). Mr Nagel is Dutch.

Dorothee E. de Graaff-van Vredenburch was appointed to the Management Board from 1 March 2014. From 1 October 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V. she was a member of the management board of ING Verzekeringen N.V. Mrs Van Vredenburch is also a member of the management board of ING Insurance Eurasia from 1 November 2012. Mrs Van Vredenburch is responsible for NN's corporate development, HR and communications. Mrs Van Vredenburch joined ING in 2009 as managing director of Corporate Communications and Affairs (CC&A) of ING Groep and, from 2010, also of ING Insurance Eurasia. Prior to joining ING in 2009, Mrs Van Vredenburch served as managing director and chairman of the board for Citigate Europe (from 2001 to 2005) and in 2007 she founded RedZebra Group, a Netherlands-based consulting firm. Mrs Van Vredenburch started her career in 1987 as investment analyst at Amro International Services (London) and she had similar roles at Swiss Bank Corporation and at Carnegie International Securities Ltd. in London until 1992. In 1993 she founded First Financial Communications B.V., a financial communications firm that later became part of the global marketing and communications Incepta Group (Citigate), which merged with Huntsworth Plc. Mrs Van Vredenburch holds a BTEC HND degree in Business and Finance from CCAT in Cambridge (UK). Mrs Van Vredenburch is Dutch.

Potential conflicts of interest

The Issuer is not aware of any actual or potential conflicts of interest between any duties owed by the members of the Management Board to the Issuer and any private interests and/or other duties that such persons may have.

Conflicting interests are considered to be absent and are not reported if a member of the Management Board obtains financial products and services, other than loans, which are provided by any subsidiary of ING Groep or the Issuer in the ordinary course of business on terms that apply to all employees. In connection with the foregoing, 'loans' does not include financial products in which the granting of credit is of a subordinated nature (e.g. credit cards and overdrafts in current accounts) because of a lack of materiality.

Supervisory Board

Members of the Supervisory Board

The following table sets out the composition of the Supervisory Board, as at the date of this Prospectus. The Issuer expects that the composition of the Supervisory Board will change at or prior to the envisaged Share Offering.

Supervisory Board		
Name	**Position**	**Age**
Jeroen van der Veer	Chairman	66
Peter A.F.W. Elverding	Vice-chairman	65
J.P. (Tineke) Bahlmann	Member	63
Henk W. Breukink	Member	63
Isabel Martín Castellá	Member	67
Carin W. Gorter	Member	51
Jan H. Holsboer	Member	67
Joost Ch.L. Kuiper	Member	66
Hermann-Josef M. Lamberti	Member	58
Robert W.P. Reibestein	Member	58
Yvonne C.M.T. van Rooy	Member	62
Luc A.C.P. Vandewalle	Member	70

All members of the Supervisory Board were appointed on 1 March 2014. Prior to that date, each member of the Supervisory Board was a member of the supervisory board of ING Verzekeringen N.V., which ceased to exist following the legal merger between the Issuer and ING Verzekeringen N.V.; see "*General Information*". The members of the Supervisory Board are currently also members of the supervisory board of ING Groep, ING Bank and ING Insurance Eurasia.

Jeroen van der Veer is a member and chairman of the Supervisory Board as of 1 March 2014. From 1 July 2009 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. and served as chairman from 9 May 2011. Until the end of June 2009, Mr Van der Veer was chief executive officer of Royal Dutch Shell plc. Mr Van der Veer is chairman of the supervisory board of the listed company Koninklijke Philips Electronics N.V. Other important positions held by Mr Van der Veer include his membership of the supervisory board of Het Concertgebouw N.V., his chairmanship of the supervisory council of Nederlands Openluchtmuseum and his membership of the board of Nationale Toneel (theatre). Furthermore, Mr Van der Veer is chairman of the supervisory council of Platform Bèta Techniek and chairman of the advisory council of Rotterdam Climate Initiative. Mr Van der Veer is Dutch.

Peter A.F.W. Elverding is a member and vice-chairman of the Supervisory Board as of 1 March 2014. From 1 August 2007 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. and was vice-chairman from 9 May 2011. Until 1 May 2007, Mr Elverding was chairman of the managing board of directors of Koninklijke DSM N.V. He was vice-chairman of the supervisory board of DNB until 4 April 2007. Currently, Mr Elverding is chairman of the supervisory board of the listed company Koninklijke BAM Groep N.V., vice-chairman of the supervisory board of SHV Holdings N.V., chairman of the supervisory board of Q-Park N.V., chairman of the supervisory board of Camille Oostwegel Holding B.V., a member of the supervisory board of Koninklijke FrieslandCampina N.V. and a member of the board of Stichting Instituut GAK. Mr Elverding is Dutch.

J.P. (Tineke) Bahlmann is a member of the Supervisory Board as of 1 March 2014. From 27 April 2009 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., she was a member of the supervisory board of ING Verzekeringen N.V. Mrs Bahlmann is professor in Business Administration at the University of Utrecht, the Netherlands. Her other important business activities include being a member of the supervisory board of Stedin Netbeheer B.V., member of the board of Maatschappelijk Verantwoord Ondernemen Nederland (CSR), chairperson of the supervisory council of Maasstad Ziekenhuis (a hospital), chairperson of Stichting Max Havelaar and member of the board of Toneelgroep Amsterdam (theatre). Mrs Bahlmann is Dutch.

Henk W. Breukink is a member of the Supervisory Board as of 1 March 2014. From 24 April 2007 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. Mr Breukink is currently a member of the supervisory board of the Dutch-listed company NSI N.V., a real estate fund. He is also a member of the supervisory board of Brink Groep B.V., chairman of the supervisory board of Heembouw Holding B.V. and chairman of the supervisory council of Inholland University. From 2002 until March 2007, Mr Breukink was country head of F&C Netherlands (asset management company) and for a year and a half he was also managing director of F&C Group. Before his career at F&C, Mr Breukink held various international positions at Royal Dutch Shell plc. Mr Breukink is Dutch.

Isabel Martín Castellá is a member of the Supervisory Board as of 1 March 2014. From 13 May 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., she was a member of the supervisory board of ING Verzekeringen N.V. Mrs Martín Castellá is former chief executive officer of Madrid Centro Financiero and former vice-president of the Management Committee of European Investment Bank. She is a member of the advisory board of Madrid Network and a non-executive member of the board of Konecta Foundation. Mrs Martín Castellá is Spanish.

Carin W. Gorter is a member of the Supervisory Board as of 1 March 2014. From 13 May 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., she was a member of the supervisory board of ING Verzekeringen N.V. Until April 2013, Mrs Gorter was a member of the Monitoring Committee Dutch Banking Code. Important positions currently held by Mrs Gorter are her memberships of the supervisory board of Cooperation VGZ and the supervisory council of CBR (driving licence agency). Mrs Gorter is Dutch.

Jan H. Holsboer is a member of the Supervisory Board as of 1 March 2014. From 14 May 2012 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. Previously, Mr Holsboer was a member of the executive board of Univar N.V. and from 1990 until 1999 he was a member of the executive boards of Nationale Nederlanden and ING Groep. Besides being a member of the Supervisory Board, Mr Holsboer is non-executive (senior independent) director of PartnerRe Ltd (Bermuda), chairman of the supervisory board of TD Bank N.V., non-executive director of YAFA S.p.A. (Turin, Italy), a member of the supervisory board of YAM Invest N.V., chairman of the supervisory board of Vither Hyperthermia B.V. and chairman of the board of Foundation Imtech. Mr Holsboer is Dutch.

Joost Ch.L. Kuiper is a member of the Supervisory Board as of 1 March 2014. From 9 May 2011 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. In addition to his membership of the Supervisory Board, Mr Kuiper is also chairman of the supervisory board of IMC B.V., member of the supervisory board of Stichting Bewaarbedrijf Abete, board member of each of Stichting voor Ooglijders and Aanwending Loterijgelden Nederland and member of the advisory board of Boelens de Gruyter. Until March 2008, Mr Kuiper was a member of the executive board of ABN AMRO Bank N.V. Mr Kuiper is Dutch.

Hermann-Josef M. Lamberti is a member of the Supervisory Board as of 1 March 2014. From 13 May 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. Until 2012, Mr Lamberti was chief operating officer of Deutsche Bank AG. Besides being a member of the Supervisory Board, Mr Lamberti is currently a non-executive member of the board of the listed company European Aeronautic Defence and Space Company EADS N.V. In addition, he is senior business adviser at Advent International GmbH, a member of the advisory board of Barmenia Versicherungen, managing director of Frankfurt Technology Management GmbH and a member of the supervisory board of Open-Xchange AG. Mr Lamberti is German.

Robert W.P. Reibestein is a member of the Supervisory Board as of 1 March 2014. From 1 January 2013 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. Until 1 January 2012, Mr Reibestein was senior partner of McKinsey & Company. Besides being a member of the Supervisory Board, Mr Reibestein is currently a member of the supervisory board of IMC B.V., chairman of the board of Royal Concertgebouw Orchestra, a member of the board of Overseers of Columbia University Business School (U.S.), a member of the supervisory board of the Dutch World Wildlife Fund, a member of the

European Council on Foreign Relations (United Kingdom) and vice-chairman of the board of VVD (Dutch political party). Mr Reibestein is Dutch.

Yvonne C.M.T. van Rooy is a member of the Supervisory Board as of 1 March 2014. From 14 May 2012 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., she was a member of the supervisory board of ING Verzekeringen N.V. Besides being a member of the Supervisory Board, Mrs van Rooy is chairperson of Nederlandse Vereniging van Ziekenhuizen (Dutch association of hospitals), a member of the board of Trust Foundation Koninklijke Brill N.V., a member of the board of Royal Concertgebouw Orchestra, a member of the advisory board of Nexus Institute, a member of the board of Stichting Instituut GAK, a member of the advisory board of Stichting Nationaal Fonds Kunstbezit and a member of the Public Interest Committee of PwC. Mrs van Rooy's previous positions include, among others, Minister of Foreign Trade, a member of the Dutch Parliament and a member of the European Parliament. She was also President of Utrecht University. Mrs van Rooy is Dutch.

Luc A.C.P. Vandewalle is a member of the Supervisory Board as of 1 March 2014. From 9 May 2011 until the legal merger between the Issuer and its subsidiary ING Verzekeringen N.V., he was a member of the supervisory board of ING Verzekeringen N.V. Besides being a member of the Supervisory Board, Mr Vandewalle is chairman of the supervisory boards of Holdingmaatschappij P. Bakker Hillegom B.V. (the Netherlands), Matexi Groep (Belgium), Plu Holding (France), Transics International (Belgium) and Alinso NV (Belgium). Furthermore, he is a member of the supervisory boards of Allia Insurance Brokers, Arseus, Besix Groep, Galloo, Masureel Veredeling, Sea-Invest, Sioen Industries, Vergroup, Veritas and Willy Naessens Industriebouw, all of which are Belgian companies. Before his appointment to the Supervisory Board, Mr Vandewalle was chairman and non-executive member of ING Belgium NV/SA until 9 May 2011. Mr Vandewalle is Belgian.

Potential conflicts of interest

The Issuer is not aware of any actual or potential conflicts of interests between any duties owed by the members of the Supervisory Board to the Issuer and any private interests and/or other duties that such person may have.

Conflicting interests are considered to be absent in case of a relationship that a member of the Supervisory Board may have with any subsidiary of ING Groep or the Issuer as an ordinary, private individual, with the exception of any loans that may have been granted.

Supervisory Board committees

The Supervisory Board has four permanent committees: the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee. The function of the committees is to prepare the discussion and decision-making of the Supervisory Board. The permanent committees of the Supervisory Board currently have the same composition and division of tasks as the corresponding permanent committees of ING Groep.

The Audit Committee assists the Supervisory Board in monitoring the integrity of the financial statements of the Issuer, its compliance with legal and regulatory requirements and the independence and performance of the Issuer's internal and external auditors, and provides advice. The members of the Audit Committee are: Joost Kuiper (chairman), Tineke Bahlmann, Isabel Martín Castellá, Carin Gorter, Jan Holsboer, Robert Reibestein and Luc Vandewalle.

The Risk Committee assists and advises the Supervisory Board in monitoring the risk profile of NN as a whole as well as the structure and operation of the internal risk management and control systems. The members of the Risk Committee are: Robert Reibestein (chairman), Tineke Bahlmann, Joost Kuiper, Hermann-Josef Lamberti, Luc Vandewalle and Jeroen van der Veer.

The Nomination Committee advises the Supervisory Board, among other things, on the composition of the Supervisory Board and the composition of the Management Board. The members of the Nomination Committee are: Jeroen van der Veer (chairman), Henk Breukink, Peter Elverding and Yvonne van Rooy.

The Remuneration Committee advises the Supervisory Board, among other things, on the terms and conditions of employment (including their remuneration) of the members of the Management Board and on the policies and general principles on which the terms and conditions of employment of the members of the Management Board and of certain senior managers and identified staff of NN are based. It also advises on the general remuneration principles to be applied by NN. The members of the Remuneration Committee are: Peter Elverding (chairman), Henk Breukink, Yvonne van Rooy and Jeroen van der Veer.

Employees

The table below sets out the number of FTEs employed by NN as at 31 December 2013, 2012 and 2011.

Employees (FTEs) of NN

	as at 31 December		
	2013	**2012**	**2011**
Permanent FTEs, excluding staff in operations held for sale	12,245	12,662	13,021
Temporary FTEs, excluding staff in operations held for sale	1,838	1,940	889
Permanent FTEs deployed in operations held for sale	436	2,172	2,073
Temporary FTEs deployed in operations held for sale	101	152	0
Total number of FTEs	**14,620**	**16,926**	**15,983**

The tables below set out the number of permanent FTEs employed by NN as at 31 December 2013, 2012 and 2011, broken down by segments and regions, excluding staff in operations held for sale.

Headcount by segment (FTE)

	as at 31 December		
	2013	**2012**	**2011**
Netherlands Life	2,571	2,739	2,930
Netherlands Non-life	1,999	2,110	2,293
Insurance Europe	4,016	4,074	4,048
Japan Life	637	665	668
Japan Closed Block VA	111	117	115
Investment Management	1,134	1,204	1,203
Other (NN Bank and ING Re and Group Staff)	1,777	1,753	1,764
Total	**12,245**	**12,662**	**13,021**

Headcount by region (FTE)

	as at 31 December		
	2013	**2012**	**2011**
The Netherlands	7,176	7,332	7,724
Rest of Europe	4,231	4,291	4,269
Japan	748	782	783
Other	90	257	245
Total	**12,245**	**12,662**	**13,021**

Governance

At the time of the envisaged Share Offering, the Issuer expects that various changes would be made to the composition of the Management Board and the Supervisory Board as well as governance practices to reflect, among other matters, Dutch securities laws, the listing requirements of Euronext Amsterdam and arrangements between the Issuer and ING Groep with respect to governance during a transition period while ING Groep divests its remaining stake in the Issuer. As indicated in "*Risk Factors—Risks Related to the Separation from, and Continuing Relationship with, ING—There remains uncertainty as to whether the Share Offering will occur at all, and if so when. ING Groep's divestment of the*

Issuer may take place by means of a sale to a single buyer or group of buyers. A sale to one or more third parties could result in a change to the strategy, management and risk profile of NN. There can be no assurance that the taking of any such actions would not adversely affect the ability of NN to effectively conduct its business or to satisfy its obligations under the Notes", the base case for divesting the Issuer is an initial public offering of Ordinary Shares via the envisaged Share Offering. However, all options remain open and uncertainty remains as to whether the envisaged Share Offering will occur at all, and if so, when.

12. SUPERVISION AND REGULATION

NN's operations and businesses are subject to a significant number of laws, regulations, administrative determinations and similar legal constraints. Such laws and regulations are generally designed to protect its policyholders and contract owners and clients, and not its shareholders or holders of other NN securities. Where applicable, NN entities have obtained the regulatory licences and approvals needed to operate their regulated businesses. Many of the laws and regulations to which NN is subject are regularly re-examined and existing or future laws and regulations may become more restrictive or otherwise adversely affect NN's operations.

The following is a description of certain legal and regulatory frameworks to which NN is or may be subject.

EC RESTRUCTURING PLAN

General

In 2009, ING Groep was required to develop and submit a restructuring plan to the EC as a condition to receiving approval from the EC for the Dutch State aid it received in 2008/2009. On 26 October 2009, ING Groep announced its 2009 Restructuring Plan, pursuant to which ING Groep is, inter alia, required to divest its insurance and investment management businesses, including the Issuer and its subsidiaries. On 18 November 2009, the 2009 Restructuring Plan received formal EC approval. On 25 November 2009, the divestment of all insurance and investment management businesses was approved by ING Groep's shareholders.

On 24 July 2012, ING Groep announced that the Dutch State and ING Groep were in dialogue with the EC on certain amendments to the 2009 Restructuring Plan, which were set out in the 2012 Restructuring Plan. On 16 November 2012, the 2012 Restructuring Plan was formally approved by the EC. The 2012 Restructuring Plan extended the time horizon, increased the flexibility for the completion of divestments and adjusted other commitments as set forth in the 2009 Restructuring Plan in light of market conditions, economic climate and more stringent regulation.

On 6 November 2013, ING Groep announced that, together with the Dutch State, it had reached an agreement with the EC on certain amendments to the 2012 Restructuring Plan, which were set out in the 2013 Restructuring Plan. The 2013 Restructuring Plan accelerated the divestment timeline for NN by two years, as a result of which ING Groep is required to divest more than 50% of its shareholding in the Issuer before 31 December 2015 and the remaining interest before 31 December 2016. Pursuant to the 2013 Restructuring Plan, the Japan Life and Japan Closed Block VA businesses are permitted to be divested in line with the divestment timeline for NN and are thus permitted to remain part of NN. The requirement to divest more than 50% of the Issuer includes the requirement for ING Groep to (a) no longer have a majority of representatives on the Management Board and (b) deconsolidate the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules.

The EC's decisions regarding the EC Restructuring Plan (except for certain confidential information) are publicly available on the EC website.

Specific conditions and restrictions regarding ING, NN and NN Bank

In addition to the divestment requirements, the EC Restructuring Plan places certain conditions and restrictions on ING's (including NN's) business and operations. These conditions and restrictions include a ban on certain acquisitions as well as a requirement for ING Groep to fulfil certain commitments, including repaying the State aid received from the Dutch State. An EC-appointed trustee monitors ING's (including NN's and NN Bank's) performance against the conditions and restrictions.

In operating the business, NN has to abide by the requirements of the EC Restructuring Plan and may also be subject to requirements included in any future decisions, guidance or interpretation of the EC that may be applicable to NN for so long as it is controlled by ING Groep and possibly for so long as ING Groep has a sufficient interest in the Issuer's share capital. These requirements could therefore limit NN's business activities. See "*Risk Factors—Risks Related to the Separation from, and Continuing Relationship with, ING*".

Acquisitions restrictions

The EC Restructuring Plan requires ING Groep and its subsidiaries to refrain from making acquisitions of financial institutions and, if it would delay ING Groep's repayment of State aid, from making acquisitions of any other businesses. As a result, the Issuer may be prevented from making any such acquisitions for as long as ING Groep continues to hold a sufficient interest in the Issuer's share capital. In certain cases, the EC may grant its approval for an acquisition that would otherwise be prohibited by the EC Restructuring Plan; in particular, if such acquisition is essential in order to safeguard financial stability or competition in the relevant markets. This restriction will continue to apply until the earlier of 18 November 2015 and the date on which ING Groep has divested more than 50% of each of its insurance and investment management businesses (in each of Asia, the United States and Europe). A divestment of more than 50% of the Issuer also means that ING Groep (a) no longer has a majority of representatives on the boards of these businesses and (b) has deconsolidated these businesses' financial statements from ING Groep's financial statements in line with IFRS accounting rules.

Call or buy-back restrictions

The EC Restructuring Plan places limitations on the ability of ING Groep and its subsidiaries to call or buy back external tier 2 capital and tier 1 hybrid debt instruments until the earlier of 18 November 2014 and the date on which ING Groep has fully repaid the core tier 1 securities to the Dutch State (including the relevant accrued interest on core tier 1 coupons and exit premium fees). In addition, it contains provisions regarding ING Groep's exposure to residential mortgage-backed securities and commercial mortgage-backed securities.

To the extent that these limitations apply to NN, NN may be restricted in its ability to acquire residential mortgage-backed securities or commercial mortgage-backed securities, or to redeem any hybrid debt instruments it may issue in the future.

NN Bank conditions and restrictions

The EC Restructuring Plan also places certain conditions and restrictions on NN Bank's business and operations, in order to ensure that a business is created that is viable and competitive. The conditions and restrictions include, amongst others, certain targets for mortgage production and consumer credit production: (a) on an annual basis, and (b) before the date on which ING Groep has divested more than 50% of its interest in the Issuer. Renewals from the ING Bank-owned (NN branded) portfolio may be used to meet the annual mortgage production targets of NN Bank. The mortgage production and consumer credit targets as included in the EC Restructuring Plan and NN Bank's business strategy and performance have been aligned. The EC Restructuring Plan contains a number of mechanisms to offset (material) underperformance of NN Bank by means of actions by ING Groep. Some of these actions may apply beyond the date on which ING Groep has divested more than 50% of its interest in the Issuer or beyond 2015. In the event of changing or deteriorating business or market circumstances, meeting these conditions and restrictions could materially affect, directly or indirectly, NN Bank's performance or results. If the EC decides or requires so, these conditions and restrictions may apply to NN Bank until 31 December 2015. Even before ING has divested more than 50% of its interest in the Issuer, NN Bank must be stand-alone and separate from the business retained by ING in order to establish a commercially independent position for NN Bank prior to its divestment. A divestment of more than 50% of the Issuer also means that ING Groep (a) no longer has a majority of representatives on the Management Board and (b) has deconsolidated the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules.

To ensure that NN Bank is stand-alone and separate from the business retained by ING, ING Groep and several subsidiaries of ING Groep and the Issuer entered into a separation agreement on 1 July 2013. Under this agreement ING Groep has amongst others agreed to: (a) subject to relevant regulatory requirements and taking into account the relevant accounting requirements, make available to NN Bank an amount up to EUR 120 million if and when needed, but ultimately just before the date on which ING Groep has divested more than 50% of its interest in the Issuer (if the Basel

III leverage ratio becomes mandatory or when NN Bank needs capital to execute its business plan), and (b) directly or indirectly commit to an estimated EUR 182 million of Tier 2 capital if and when needed, but ultimately just before the date on which ING Groep has divested more than 50% of its interest in the Issuer, in order for NN Bank to comply with DNB's solvency requirements.

Possible consequences of non-compliance with the EC Restructuring Plan

If ING Groep does not meet any NN Bank-related commitments before the date on which ING Groep has divested more than 50% of its interest in the Issuer or, if the EC requires, before the end of 2015, if ING Groep does not (timely) divest NN as agreed with the EC or in case of other material non-compliance with the EC Restructuring Plan, the Dutch State will be obliged to re-notify the recapitalisation measure to the EC. A divestment of more than 50% of the Issuer also means that ING Groep (a) no longer has a majority of representatives on the Management Board and (b) has deconsolidated the Issuer's financial statements from ING Groep's financial statements in line with IFRS accounting rules. See "*Risk Factors—Risks Related to the Separation from, and Continuing Relationship with, ING*" for a further description of these consequences.

GENERAL REGULATORY FRAMEWORK

The insurance, reinsurance, investment management and bank subsidiaries of NN are subject to governmental regulation in all of the countries in which they operate. The regulatory authorities in these countries are responsible for supervising NN complying with applicable regulations.

DNB and the AFM are the regulatory authorities for NN. NN is under group supervision of DNB with regard to its solvency. In addition, the AFM supervises the Issuer since its securities will be listed on Euronext Amsterdam. Furthermore, the AFM and DNB are the regulators for those subsidiaries which are licensed in the Netherlands. DNB exercises prudential supervision, which is to ensure the financial soundness of financial undertakings and to contribute to the stability of the financial sector. AFM exercises conduct of business supervision, which focuses on orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to clients.

Furthermore, the Netherlands Consumer Authority, the Netherlands Competition Authority and the Netherlands Independent Post and Telecommunications Authority joined forces on 1 April 2013, creating a new independent regulator: the Netherlands Authority for Consumers and Markets (**ACM**). The ACM can conduct investigations into competition infringements both on its own initiative or as a result of complaints or leniency requests and can take enforcement action.

The Dutch Financial Supervision Act, together with the regulations promulgated thereunder and the General Administrative Law Act (*Algemene wet bestuursrecht*), set out the rights and duties of the Dutch regulators for the purposes of financial regulation. The Dutch Financial Supervision Act is derived in part from EU directives and other EU legislation. This is also the case for the regulatory laws of other Member States, which means that there is a significant degree of harmonisation in financial supervision regulation and financial market liberalisation across the EU. The scope of EU legislation also includes the EEA. Therefore, references in this section to EU legislation are intended to mean that such legislation is also applicable to the EEA.

The Dutch Data Protection Act, together with the regulations promulgated thereunder, sets out the rights and duties of the Dutch Data Protection Authority for the supervision of compliance with acts that regulate the use, processing and transfer of personal data. The Dutch Data Protection Act is derived in part from the European Privacy Directive 95/46/EC. This is also the case for the data protection laws of other Member States, which means that there is a degree of harmonisation in data protection supervision regulation across the EU.

In addition to the EU and Dutch laws and regulations described in this chapter, NN Investment Partners is also subject to extensive regulations in other countries in which it operates, such as Japan, Poland, Singapore, and the United States, or invests. Some of NN Investment Partners' subsidiaries are registered with the U.S. Securities and Exchange Commission (**SEC**) under the Investment Advisers Act of 1940, and some of NN Investment Partners' clients are registered with the SEC under the Company Act of 1940. The U.S. regulations impose many requirements on registered investment advisers including books and record-keeping, operating, and marketing/sales practices, disclosure and reporting, obligations, and prohibitions on fraudulent activities. Additionally, NN Investment Partners is also subject to other U.S. regulations, such as regulations promulgated under the Securities Exchange Act of 1934 and the Dodd-Frank Act, by investing in US-listed companies and trading with U.S. broker-dealers and counterparties.

EU REGULATORY FRAMEWORK

Insurance and insurance-related regulation

This paragraph is relevant for the European licensed insurance companies of NN. Since 1973, the EU has adopted a number of insurance directives that affect the underwriting and distribution of life insurance and other types of insurance. These directives have been implemented in the Netherlands and the other Member States through national legislation. The primary objective of these directives has been to grant insurers the freedom to establish branches and to provide services outside their home jurisdictions in accordance with the EU basic freedoms while ensuring certain minimum standards for insurance regulation in Europe.

The single licence principle is a core element for giving effect to the principles of the freedom of establishment and the freedom to provide services. Provided an insurance company is licensed in one Member State, it may do business directly or through branches in any other Member State without being subject to the licensing laws of that Member State (the so-called European passport principle). The EU legislative framework defines and coordinates the competencies of the national regulatory authorities.

The 1992 EU directives on life insurance and direct insurance other than life insurance are founded on the "home country control" principle, which provides that the ongoing regulation of insurance companies, including their non-home insurance operations (whether cross-border or through branches), is the responsibility of the home country insurance regulatory authority. The home country insurance regulatory authority monitors compliance with applicable regulations, the solvency of the insurer and its technical provisions as well as the assets of the insurer that support such technical provisions. Selling activities of non-home insurance operations, however, are regulated by the regulatory authorities in the country in which the sale of the insurance product takes place, and are therefore subject to, inter alia, the consumer protection and conduct of business rules of that particular jurisdiction.

The EC intended that the EU insurance directives establish a single European insurance market. These directives also provided for minimum requirements for life and non-life insurance companies, especially in relation to capitalisation levels. Insurance companies have to ensure that they are able to meet the obligations under their insurance contracts at any given time. They are required to maintain a level of their own funds in the amount of the solvency margin, which is based on the particular insurance company's business volume. For property/casualty insurance companies, the solvency margin is calculated by reference either to the annual collected premiums or the average amount of claims in the period of analysis, with whichever is the higher amount forming the basis of the solvency margin applicable. For life insurance companies, the solvency margin is calculated primarily on the basis of the capital-at-risk and certain technical insurance reserves. In addition to minimum capitalisation requirements, the existing EU directives require that the directors and officers of insurance companies have the required professional qualifications and expertise.

In order to prevent risks inherent to certain lines of insurance affecting other lines of insurance, the EU insurance directives prohibit insurance companies from writing both life insurance and non-life insurance business, which is referred to as the principle of separation of certain insurance lines. The principle does not, however, apply to the reinsurance business. Therefore, reinsurance companies may offer both non-life and life reinsurance. EU insurance directives emphasise prudence and prohibit insurance companies from operating non-insurance businesses in order to prevent insurance companies from taking on additional risks from non-insurance activities.

Directive 98/78/EC on the supplementary supervision of insurance undertakings in an insurance group introduced an additional layer of regulation for insurance companies that are members of an insurance group. Such insurance companies must also calculate their solvency at the group level (**IGD ratio**). This directive seeks to prevent companies from taking their own funds into account multiple times in calculating the solvency capital requirements of their various insurance company subsidiaries and prevent the intra-group creation of capital. Furthermore, certain types of intra-group transactions, especially in relation to intra-group financing, are subject to extensive regulation. In 2002, the EC introduced similar provisions for insurance companies which belong to a financial conglomerate.

EU directives impose additional requirements for particular insurance lines, such as motor third party liability insurance and legal expenses insurance. Additionally, some other elements of EU insurance regulation have been further harmonised, including accounting, reorganisation and liquidation of insurance companies.

Directive 2005/68/EC on reinsurance established a uniform licensing regime for reinsurance companies, with a degree of harmonisation roughly comparable to the level of harmonisation in primary insurance. Since the adoption of this directive, reinsurance companies have been licensed under the European passport principle and the competencies of national regulatory authorities over reinsurance companies has been coordinated and defined more clearly. In addition, European directives have also established uniform minimum requirements for reinsurance companies, particularly in relation to levels of capitalisation and the powers of the national regulatory authorities to intervene in the affairs of reinsurance companies.

EU insurance directives and regulations have led to standardised national minimum regulatory requirements for insurance companies. Although the Member States are permitted to exceed these minimum requirements, which they have done to varying degrees, insurance regulatory law is now highly harmonised throughout the EU. In 2004, the EC initiated a new reform process in order to achieve greater legal uniformity and eliminate certain drawbacks in the regulatory system, above all in relation to capitalisation calculations. These reform efforts led to the adoption of the Solvency II Directive in 2009, which is currently being supplemented at the EU level by implementation measures and is to be transformed in parallel in national law.

Solvency II Directive

The EU is adopting a full-scale revision of the solvency framework and prudential regime applicable to insurance, reinsurance companies and insurance groups known as 'Solvency II'. The framework for Solvency II is set out in the Solvency II Directive, which was adopted by the European Council on 10 November 2009 (Directive 2009/138/EC). The Solvency II Directive is scheduled to come into force on 1 January 2016. However, given previous changes to the effective date of Solvency II and the possibility of further changes to the regime, there remains some uncertainty as to when Solvency II will become effective.

On 19 January 2011, the EC presented a draft of a directive to amend the Solvency II Directive, the Omnibus II directive. The Omnibus II directive was agreed by the European Parliament on 12 March 2014. However, the level 2 implementing measures and the implementing technical standards remain subject to change (see below).

Solvency II is aimed at creating a new solvency framework in which the financial requirements that apply to an insurance, reinsurance company and insurance group, better reflect such company's specific risk profile. Solvency II will introduce economic risk-based solvency requirements across all Member States for the first time. While Solvency I includes a relatively simple solvency formula based on technical provisions and insurance premiums, Solvency II introduces a new 'total balance sheet' type regime where insurers' material risks and their interactions are considered. In addition to these quantitative requirements (Pillar 1), Solvency II also sets requirements for governance, risk management and effective supervision (Pillar 2), and disclosure and transparency requirements (Pillar 3).

Pillar 1

Under Pillar 1 of Solvency II, insurers are required to hold own funds equal to or in excess of a solvency capital requirement (**SCR**). Solvency II will categorise own funds into three tiers with differing qualifications as eligible available regulatory capital. Under Solvency II, own funds will use IFRS balance sheet items where these are at fair value and replace other balance sheet items using market consistent valuations. The determination of the technical provisions and the discount rate to be applied in determining the technical provisions is still under debate and the outcome of discussions regarding these matters is uncertain as key parameters will only be established in the level 2 implementing measures and implementing technical standards. However, it is certain that the determination of the technical provisions and the discount rate to be applied will have a material impact on the amount of own funds and the volatility of the level of own funds. The SCR is a risk-based capital requirement which will be determined using either the standard formula (set out in level 2 implementing measures), or, where approved by the relevant supervisory authority, an internal model. The internal model can be used in combination with, or as an alternative to, the standard formula as a basis for the calculation of an insurer's SCR. In the Netherlands, such a model (which would include an internal model of NN) must be approved by DNB.

Pillar 2

Solvency II lays down strict requirements that insurers (including NN) will have to adhere to, including requirements to:

- have effective governance systems in place, proportionate to their business;
- meet specific requirements regarding risk management, internal controls, data quality controls, internal audit functions, internal actuarial functions and control over outsourcing arrangements;
- integrate effective risk management systems, including strategies, processes and reporting procedures, in order to monitor, manage and report risk exposures;
- conduct an own risk and solvency assessment (ORSA) on a regular basis; and
- be effectively supervised by the National Competent Authorities (NCAs).

Pillar 3

Solvency II lays down extensive and frequent reporting requirements to supervisory authorities, and additional external reporting requirements.

It is not certain when Solvency II will be finalised, nor what the final form of Solvency II (including the level 2 implementing measures and the implementing technical standards) will contain. On 13 November 2013, the EC announced that Solvency II will come into force on 1 January 2016. However, given previous changes to the effective date of Solvency II and the possibility of further changes to the regime, there remains some uncertainty as to when Solvency II will become effective. Accordingly, the future effect of Solvency II on NN's business, solvency margins and capital requirements is uncertain.

Should NN not be able to adequately comply with the Solvency II requirements in relation to capital, risk management, documentation, and reporting processes, this could have a material adverse effect on its business, results of operations and financial condition.

While the aim of Solvency II is to introduce a harmonised, risk-based approach to solvency capital, there is a risk of differences in interpretation and a risk of a failure by financial services regulators to align Solvency II approaches across Europe, resulting in an unequal competitive landscape. This risk may be exacerbated by discretionary powers afforded to financial services regulators in Member States. Moreover, it could be that Solvency II will include transitional provisions that will allow companies to continue to value assets and liabilities under the pre-Solvency II valuation rules. At present pre-Solvency II valuation rules in many countries are less onerous and significantly less affected by market volatility than is (or will be) the case under the Solvency II valuation requirements. This is not the case for the Netherlands, where the current legislative framework requires the valuation of insurance liabilities at lower discount rates than under Solvency II and creates higher volatility. It is therefore unlikely that NN will derive the full benefit of any such transitional measures, even were they to be introduced in the Netherlands, whereas certain of NN's competitors may benefit from such transitional measures, thus placing NN's business at a competitive disadvantage. The Solvency II Directive is currently undergoing revision by the EC. On 19 January 2011, the EC presented a draft of a directive to amend the Solvency II Directive, the Omnibus II directive. The Omnibus II directive was proposed in order to take into account the new supervisory architecture for insurance; namely, the setting up of EIOPA and the entry into force of the Lisbon Treaty, which required the adjustment of the EC powers to adopt implementing measures to empowerments for the EC to adopt implementing and delegated acts according to Article 290 of the Treaty on the

Functioning of the European Union. Negotiations regarding Omnibus II have centred on the need emerged to introduce measures on the treatment of insurance products with long-term guarantees under Solvency II. On 13 November 2013, the EU Council and the European Parliament achieved a provisional political agreement on the Omnibus II Directive. This agreement was confirmed by the European Parliament on 12 March 2014. As agreed, the Omnibus II directive contains provisions for long-term guarantees which have the objective of adjusting the Solvency II Directive to cope with "artificial" volatility and a low interest rate environment, and to allow for the smooth transition from the Solvency I regime to the Solvency II regime.

Insurance Mediation Directive

The EU Directive 2002/92/EC on insurance mediation (**IMD**) regulates the point of sale of insurance products to ensure the rights of the consumer. The IMD is a minimum harmonisation instrument containing high level principles and has been implemented in each Member State in substantially different ways. During discussions in the European Parliament on Solvency II a specific request was made to review IMD to improve policyholder protection in the aftermath of the financial crisis and improvement of selling practises for different insurance products.

On 3 July 2012, the European Commission published proposals for a revision of the Insurance Mediation Directive (**IMD2**). Key proposals are, among others, mandatory disclosure requirements obliging insurance intermediaries to disclose to their customers the nature and amount of remuneration they receive, including any contingent commissions, or if the full amount of remuneration cannot be calculated, the basis of its calculation. According to the proposals, mandatory prior disclosure to customers will be required with respect to the amount of commission retained by the intermediary or paid by the insurer. Further, IMD2 will extend the scope of the current Insurance Mediation Directive to cover direct sales by insurance and reinsurance companies without the use of an intermediary. Insurers carrying out direct sales will be required to comply with information and disclosure requirements and certain conduct of business rules including a general obligation to act honestly, fairly and professionally in accordance with customers' best interests. In the case of the sale of bundled products, for instance, the insurance company will have to inform customers about the possibility to purchase the components of the package separately and about the costs of each component when purchased separately. In addition, the proposals set out stricter requirements for the sale of life insurance investment products, for example, the obligation to identify and disclose conflicts of interest or to gather information from customers to assess the appropriateness of the product.

European insurance regulatory authorities

Insurance companies are not yet directly regulated by EU regulatory authorities. However, as part of efforts to prevent future financial crises, the EU and national bodies have taken a number of steps to transfer certain powers to the EU level. A European System of Financial Supervision (**ESFS**) commenced operations at the beginning of 2011. The most important component of the ESFS is the European Supervisory Authorities (**ESA**). As of 1 January 2011, EIOPA replaced the former Committee of European Insurance and Occupational Pensions Supervisors. EIOPA's main responsibility is to develop technical regulatory and enforcement standards and recommendations and formulate guidelines for coordinating national insurance regulatory authorities. Technical regulatory and enforcement standards are adopted as delegated legal acts within the meaning of Article 290 of the Treaty on the Functioning of the European Union (**TFEU**) and as enforcement acts within the meaning of Article 291 TFEU. Once the EC approves these standards, they will be legally binding and, thus, can directly impose obligations on insurance companies in the EU. Within the course of the final approval process, the EC is only authorised to deviate from the EIOPA proposals under limited circumstances.

EIOPA recommendations and guidelines are not directly binding on insurance companies but the national regulatory authorities are required to provide reasons for any deviations from the EIOPA supervisory practices under the "comply or explain" principle. In exceptional circumstances, such as continued legal breaches by national authorities, crisis situations or disputes between national authorities, EIOPA may issue instructions to national authorities and take direct action itself by issuing binding decisions on insurance companies if the national authorities fail to comply.

ComFrame

On 18 October 2013, the IAIS (International Association of Insurance Supervisors) released the 2013 draft of ComFrame for public consultation. ComFrame has three main objectives: (a) the development of methods of operating group-wide supervision of IAIGs, (b) the establishment of a comprehensive framework for supervisors to address group-wide activities and risks, and (c) the fostering of global convergence. In October 2013, the IAIS also announced its agreement to develop a risk-based global insurance capital standard within ComFrame. The release for public consultation is the next step in its three-year development phase. Finalisation is not expected until 2018.

Systemically important financial institutions

As the recent global financial crisis unfolded, the international community moved to protect the global financial system through preventing the failure of SIFIs or, if one does fail, limiting the adverse effects of its failure. In November 2011, the Financial Stability Board published a list of G-SIFIs. Subsequently, in July 2013, the Financial Stability Board designated nine global insurance companies as G-SIIs. As a result, these firms will be subject to enhanced supervision and increased regulatory requirements in the areas of recovery and resolution planning as well as capital. The implementation deadlines for these requirements start as early as July 2014 and, in the case of additional capital requirements, extend to 2019. Although neither NN nor any other Dutch insurer is included in this list, it cannot be ruled out that this supervision and regulation will be expanded to take in NN in the future.

EU unisex rule

In March 2011, the European Court of Justice ruled that insurers in Europe cannot differentiate in price or benefits for the same insurance products, based on gender. This gender-neutral pricing, commonly called the unisex rule, states that as of 21 December 2012 life insurers must offer products that are identical for men and women. To comply with this new regulation, all product portfolios across the insurance business units were reviewed. More than 90 products were repriced in ING Insurance Central and the rest of Europe. In the Benelux, all products available for sale were reviewed in the past two years to ensure they were compliant with the EU unisex rule. From 21 December 2012, all of ING Insurance's products available for sale throughout the European Union have been compliant with the rule.

Insurance guarantee schemes

Currently, certain jurisdictions in which NN's insurance subsidiaries operate require that life insurers doing business within the jurisdiction participate in guarantee associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. The occurrence of such a guarantee event may give rise to an obligation on the relevant insurance subsidiary to pay significant amounts under the guarantee. The EC has been discussing EU-wide insurance guarantee schemes for a few years now and intends to introduce an EU directive on insurance guarantee schemes. As at the date of this Prospectus, no proposals for this directive have yet been published.

Investment management-related regulation

In the area of funds and investment management, the EU has enacted three main bodies of legislation: the UCITS Directive, the AIFMD Directive and the MiFID Directive. Rules that apply here are relevant for the investment management business of NN that operate in the EU. Discussed below are only the most relevant recent developments. Nevertheless, other European legislation, such as EMIR (European Market Infrastructure Regulation, Regulation 648/2012/EC) and Solvency II and non-European legislation, such as FATCA and Securities and Exchange Commission rules, also have an impact on the investment management business that should be taken into account.

UCITS

With regards to UCITS, the original 1985 UCITS Directive was amended by two 2001 EU directives (commonly known as UCITS III) and one 2009 EU directive (UCITS IV). UCITS III introduced provisions regulating the types of assets in which a UCITS may invest and gave UCITS management companies the possibility to use a "European passport" to operate throughout the EU. UCITS IV was approved as Directive 2009/65/EC and Member States needed to transpose the framework into national law by 1 July 2011. The UCITS IV Directive updated the existing regime by introducing substantial changes, the most important of which were (a) the simplification of the notification procedure for UCITS that wish to market their units in another Member State, (b) a requirement to publish the so-called "key investor information document", (c) the introduction of a framework for mergers between UCITS, and (d) regulation of master-feeder structures. On 3 July 2012, the EC adopted a proposal for a directive amending UCITS IV that seeks to introduce changes in relation to the depositary function, remuneration policies and sanctions.

AIFMD

The AIFMD is an EU regulatory initiative to regulate and supervise the alternative investment fund management industry. The AIFMD lays down the rules for the authorisation, ongoing operation and transparency of fund managers that manage and market AIFs in the EU. The final text came into force on 21 July 2011 and Member States needed to transpose the framework into national law by 22 July 2013. As a consequence of the implementation, AIFMs established within the EU required authorisation by 22 July 2013 (or will require authorisation by 22 July 2014 in Member States that use the transitional period provided for in the AIFMD). Licensed AIFMs will be subject to detailed rules on delegation, transparency, conduct of business, remuneration, leverage and reporting. Additionally, licensed AIFMs will be required to appoint an independent custodian for each AIF that they manage and have independent risk management and valuation functions. Similarly to the UCITS regime, AIFMs authorised under the AIFMD will be granted the possibility to passport their licence to either manage AIFs in other Member States or market units or shares in AIFs to professional investors. In short, the AIFMD created a uniform regulatory system for the EU for managers of alternative investment funds that do not constitute UCITS. During 2012, NN Investment Partners familiarised its organisation with the requirements of the AIFMD.

MiFID

Another important piece of legislation in this area is the Markets in Financial Instruments Directive (Directive 2004/39/EC, **MiFID**), which is implemented in European legislation. MiFID regulates, inter alia, the cross-border provision of investment services and regulated markets and replaces the 1993 EU Investment Services Directive that established the single passport for investment firms. MiFID provides a harmonised regime for investment services and aims to increase competition and reinforce investor protection. It streamlines supervision on the basis of home country control and enhances the transparency of markets. It harmonises conduct of business rules, including best execution, conflict of interest and customer order handling rules. MiFID abolishes the concentration rule, creating a more competitive regime between order-execution venues. It also imposes market transparency rules for investment firms, regulated markets and multilateral trading systems for both pre- and post-trading for equities.

MiFID also has consequences for intermediaries in financial products. It envisages, inter alia, the harmonisation of regulation in respect of commission payments and remuneration transparency. MiFID prescribes commission payment rules which should lead to appropriate commissions. These rules are intended to better protect customers if they wish to purchase certain financial products, such as "complex" structured products and mortgage loans because there might be a risk of reward-driven advice issued by intermediaries since intermediaries are often paid by the provider of the financial product.

On 20 October 2011, the EC published proposals for the revision of MiFID. The proposals consist of a directive 'MiFID II' and a regulation 'MiFIR' and aim to make financial markets more efficient, resilient and transparent, and to strengthen protection of investors. The new framework will also increase the supervisory powers of regulators and provide clear operating rules for all trading activities.

Key elements of the proposal are:

- More robust and efficient market structures: Revision will bring a new type of trading venue into its regulatory framework, the Organised Trading Facility. Furthermore, in order to facilitate better access to capital markets for SMEs, the proposals will also introduce the creation of a specific label for SME markets.

- Taking account of technological innovations: MiFID II will introduce new safeguards for algorithmic and high-frequency trading activities, which have both drastically increased the speed of trading and pose possible systemic risks. Also, the proposals will improve conditions for competition in essential post-trade services such as clearing.
- Reinforced supervisory powers and a stricter framework for commodity derivatives markets: The proposals will reinforce the role and powers of regulators. In coordination with ESMA and under defined circumstances, supervisors will be able to ban specific products, services or practices in case of threats to investor protection, financial stability or the orderly functioning of markets.
- Stronger investor protection: Building on a comprehensive set of rules already in place, the revised MiFID sets stricter requirements for portfolio management, investment advice and the offer of complex financial products such as structured products. In order to prevent potential conflict of interest, independent advisers and portfolio managers will be prohibited from making or receiving third party payments or other monetary gains.

Finally, rules on corporate governance and managers' responsibility are introduced for all investment firms.

Once the directive and regulation are adopted, the regulation will apply directly and the directive will have to be implemented in national legislation. The expected timeframe for implementation is 2016.

Banking and banking-related regulation

The EU Financial Services Action Plan 1999-2005 laid the foundations for a single financial market in the EU and has brought about many changes. In its Strategy on Financial Services for 2005-2010, the EC set out its objectives to achieve an integrated and competitive EU financial market. It proposed doing so by removing remaining barriers, especially in the retail area so that financial services can be provided and capital can circulate freely throughout the EU at the lowest possible cost, resulting in high levels of financial stability, consumer benefits and consumer protection. The financial services sector includes three major areas on which EU regulatory policies apply: banking, capital markets and investment management. This paragraph focuses on the banking-related activities of NN as contemplated by NN Bank.

Basel II sets out the details for adopting more risk-sensitive minimum capital requirements for banking organisations. It reinforces these risk-sensitive requirements by laying out principles for banks to assess the adequacy of their capital and for supervisors to review such assessments to ensure banks have adequate capital to support their risks. It also seeks to strengthen market discipline by enhancing transparency in banks' financial reporting. The Basel II framework is implemented through European directives and regulations, including the EU Recast Banking Directive 2006/48/EC.

This directive sets out rules concerning the taking-up and pursuit of the business of credit institutions and their prudential supervision. Under this directive, a bank can offer banking services in all Member States on the basis of a single banking licence (the so-called European passport principle) through the establishment of a branch or cross-border provision of services in all Member States.

The EU Recast Banking Directive 2006/48/EC is the first part of the capital requirements framework, which was adopted in June 2006 as the EU Capital Requirements Directive (**CRD**); the second part is the EU Recast Capital Adequacy Directive 2006/49/EC. The CRD is the legal vehicle pursuant to which the Basel II framework was implemented into EU law. The directive sets out the capital adequacy requirements that apply to investment firms and credit institutions.

In October 2008, the EC adopted proposals to amend the CRD in view of the financial crisis. Proposals addressed items such as large exposures, supervisory arrangements and crisis management and securitisation (directive 2009/111/EC).

On 20 July 2011, a legislative package was adopted by the EC replacing the current CRD (directives 2006/48/EC and 2006/49/EC) with a directive (2013/36/EC) and a regulation (EU No. 575/2013). This CRD IV package, which transposes the new global standards on bank capital into EU legislation, entered into force in July 2013. The new rules apply from January 2014 and tackle some of the vulnerabilities shown by the banking institutions during the crisis; namely, the insufficient level of capital, both in quantity and in quality, resulting in the need for unprecedented support from national authorities. The rules also apply to investment firms and therefore are relevant for subsidiaries of the Issuer that are licensed as an investment firm. They set stronger prudential requirements for banks and investment firms, requiring them to keep sufficient capital reserves and liquidity. This new framework intends to make EU banks and investment firms stronger and will strengthen their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. For the Dutch implementation of these rules, see "*—Dutch Regulatory Framework—Banking and banking-related regulation—Solvency supervision*".

Following further ambitions on harmonisation of the European supervisory framework, the CRD framework now includes more than 150 mandates for the ESAs to work on more detailed specifications of the CRD provisions. Many of these mandates take the form of tasking the European Banking Authority (**EBA**) with submitting draft binding technical standards for adoption to the EC. These binding technical standards will have the meaning of European level two regulations after adoption by the EC and subsequent formal procedures. In addition the EBA is empowered to investigate and research the application of the CRD in many specific areas.

Deposit guarantee schemes

The EC also adopted a proposal for amendments to the EU Deposit Guarantee Schemes Directive. The resulting EU Directive 2009/14/EC provides for an increase of the minimum coverage level for depositors from EUR 20,000 to EUR 50,000 with a further increase to EUR 100,000 by 31 December 2010 and a reduction in the pay-out delay. In October 2013, the EU restarted discussions on a renewal of the EU Deposit Guarantee Schemes Directive. The most important proposals are the introduction of mandatory *ex-ante* funding (i.e. pre-funding) of deposit guarantee schemes, a minimum target level for deposit guarantee schemes funds and the further reduction of the pay-out delay. For recent Dutch developments in this area, see "*—Dutch Regulatory Framework—Banking and banking-related regulation—Deposit guarantee scheme*".

EU crisis management framework

In June 2012, the EC published the Recovery and Resolution Directive, which includes, among other things, the obligation for institutions to draw up a recovery plan and the obligation for resolution authorities in the Member States to draw up a resolution plan, early intervention measures and a European system of financing arrangements. The draft Crisis Management Framework Directive was published, and is still under discussion at the European Parliament and the European Council. The most important elements are recovery and resolution planning, bail-in requirements and the financing of resolution arrangements. Bail-in requirements are planned to enter into force by 2018. It is expected that banks will need to contribute to a so-called resolution fund. The target for this fund is still unclear. Also with respect to bail-in requirements it is still unclear what amounts banks, such as NN Bank, will need to hold.

On 5 October 2012, the EC launched a consultation on a possible framework for the recovery and resolution of financial institutions other than banks. It is examining whether and how the failure of different kinds of non-bank financial institutions, notably central counterparties, central securities depositaries, and systemic insurance companies occurs. See "*—EU Regulatory Framework—Insurance and insurance-related regulation—Systemically important financial institutions*". G-SIFIs should be managed by specific steps to ensure orderly recovery and resolution where necessary. The consultation closed on 28 December 2012.

EU Anti-Money Laundering Directives (MLDs)

The EU anti-money laundering regime is set out primarily in three directives: Directive 91/308/EE (commonly known as MLD1), Directive 2001/97/EC (commonly known as MLD2) and Directive 2005/60/EC (commonly known as MLD3). In short, MLD1 was aimed at combating the laundering of drugs proceeds through the traditional financial sector. The regime thus applies to a wider scope of entities and is therefore relevant for all entities active in the financial sector. Amongst other things, it required Member States to prohibit money laundering and to oblige their financial sectors to (a) identify their customers, (b) keep appropriate records, (c) establish internal anti-money laundering procedures and (d) report any indications of money laundering to the relevant financial regulator. MLD2 extended MLD1 to cover the proceeds of a wider range of criminal activities and a number of non-financial activities and professions, including lawyers, notaries, accountants, estate agents, art dealers, jewellers, auctioneers and casinos.

The aim of MLD3 was to strengthen the existing EU anti-money laundering framework. It also harmonised standards across the EU relating to money laundering and terrorist financing, introduced more high-level and risk-based requirements than MLD1 and MLD2, and extended the definition of money laundering and the scope of the regulated sector. MLD3 applies to (a) credit institutions (as defined in Article 1(1) of the Banking Consolidation Directive 2000/12/EC), (b) financial institutions (as defined in Article 3(2) of MLD3), (c) auditors, external accountants and tax advisers acting in the exercise of their professional activities, (d) notaries and other independent legal professionals acting in the course of their professional activities when they participate, whether by acting for and on behalf of their customer in any financial or real estate transaction, or by assisting in the planning or execution of certain transactions for their customer, (e) trust or company service providers not falling within the categories listed above, (f) estate agents, (g) all natural or legal persons trading in goods to the extent that payments are made in cash in an amount of EUR 15,000 or more, whether the transaction is executed in a single operation or in several operations which appear to be linked, and (h) casinos.

MLD3 is a minimum harmonising directive, so Member States had flexibility when transposing it into national law to adopt stricter measures than those required by MLD3. As a result, MLD3 has allowed various differences in national implementation. There are various other sources of anti-money laundering-related law at the European level, including the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime of 8 November 1990; the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, 16 May 2005 and the Wire Transfer Regulation (1781/2006).

On 5 February 2013, the EC published proposals for a new directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and a new regulation on information accompanying transfers of funds to secure "due traceability" of these transfers. Both proposals are designed to strengthen the European regulatory framework on, inter alia, the prevention of money laundering and terrorist financing. The proposals are intended to be in line with the most recent standards of the Financial Action Task Force. Both proposals were referred to a joint committee on 10 October 2013. The plenary meeting of the European Parliament on these proposals has taken place on 11 March 2014.

DUTCH REGULATORY FRAMEWORK

General

The Dutch NN insurance, reinsurance, investment management, bank and financial services providers' subsidiaries are supervised in the Netherlands by DNB and the AFM.

The regulatory system in the Netherlands is a comprehensive system based on the provisions of the Dutch Financial Supervision Act which came into effect on 1 January 2007. The Dutch Financial Supervision Act sets out rules regarding conduct of business supervision (exercised by the AFM) and prudential supervision (exercised by DNB). Conduct of business supervision focuses on ensuring orderly and transparent financial market processes, proper relationships between market participants and the exercise of due care by financial enterprises in dealing with customers. For this purpose, it is necessary to create market conditions where supply and demand can be brought together (orderliness) and to ensure that market participants have access to information needed to make decisions (transparency). For an efficient financial market it is also necessary to have rules that govern the transactions between participants in the market and help to achieve market equilibrium (proper relations between market participants). To achieve this, the AFM's conduct of business supervision intends to realise that financial enterprises treat their customers with due care, in order to minimise the potential information gap between providers of financial services and products and their customers. In case of breach of conduct of business rules of the Dutch Financial Supervision Act, the AFM may, inter alia, issue instructions (*aanwijzingen geven*), impose fines and make public information on any imposed sanctions and the context thereof. The AFM is the primary regulator of NN's Dutch investment management and financial services providers' subsidiaries.

DNB's prudential supervision is to ensure the financial soundness of financial undertakings and to contribute to the stability of the financial sector. In order to do so, it protects the interests of bank creditors, policyholders, investors and financial services customers of financial enterprises. It is naturally in the interests of customers of financial enterprises to be able to rely on the fact that the financial enterprises will fulfil their obligations. Prudential supervision comprises solvency and liquidity supervision designed to check that financial enterprises can always meet their payment obligations. The supervision aims to reduce the risk of bankruptcy, although this risk can never be entirely excluded in a market economy. Prudential supervision also includes supervision of the scope and composition of the technical provisions of insurers for performance of their insurance obligations. In case of breach of the prudential provisions of the Dutch Financial Supervision Act, DNB may, inter alia, issue directions, impose fines and make public information on any imposed sanctions and the context thereof. DNB is the primary regulator of NN's Dutch insurance and bank subsidiaries.

Supervision of financial groups

The Dutch Financial Supervision Act contains specific provisions concerning the prudential supervision of financial groups. These provisions deal with: (a) the consolidated supervision of credit institutions and investment firms, (b) the supervision of life insurers, non-life insurers and reinsurers in an insurance group, and (c) the supervision of financial conglomerates, in order to enable DNB to form a correct picture of the financial soundness of the group, so as to ensure, inter alia, that a group's solvency is not presented in an excessively favourable light.

The Issuer is a holding company of a group of licensed insurance companies, investment firms and banks and as such is subject to supplementary supervision. As long as the Issuer is a group company of ING Groep, the Issuer is part of the ING Groep financial conglomerate and, as a result of the commitments given by ING Groep to the EC to ensure that NN Bank must reach, amongst others, certain targets for mortgage production and consumer credit, NN may qualify as a financial conglomerate in the near term. However, this cannot be the case as long as it is part of the ING Groep financial conglomerate.

Oath

The Dutch government has introduced a mandatory oath for executive and supervisory board members of financial institutions licensed in the Netherlands, effective 1 January 2013. For NN this means that the board and supervisory board members of all financial institutions of NN that are licensed in the Netherlands must take this mandatory oath. In this oath, executive and supervisory board members declare that they will: (a) perform their duties with integrity and care, (b) carefully consider all the interests involved in the financial institution, i.e. those of the customers, the shareholders, the employees and the society in which it operates, (c) in doing so, give paramount importance to the customer's interests and inform the customer to the best of their ability, (d) comply with the laws, regulations and codes of conduct applicable to them, (e) observe confidentiality in respect of matters entrusted to them, (f) not abuse their knowledge, (g) act in an open and assessable manner and know their responsibility towards society, and (h) endeavour to maintain and promote confidence in the financial sector. If they break the oath, the supervisory authority (DNB/AFM) can decide to reassess their suitability. The Dutch Minister of Finance has announced that employees of Dutch-based banks and insurers will need to take a similar oath as from 2015 and the Dutch Banking Association, (*Nederlandse Vereniging van Banken*) supports that employees from banks also become subject to disciplinary rules (*tuchtrecht*).

Dutch Intervention Act

In June 2012, the Dutch Intervention Act (*Wet bijzondere maatregelen financiële ondernemingen*) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Dutch Intervention Act allows Dutch authorities to take certain actions when banks and insurers fail and cannot be wound up under ordinary insolvency rules due to concerns regarding the stability of the overall financial system. The rules apply to the Netherlands-regulated insurance companies of NN and to NN Bank. It is composed of two categories of measures.

The first category of measures can be applied if a bank or insurer experiences serious financial problems and includes measures related to the timely and efficient liquidation of failing banks and insurers and gives DNB far-reaching authority to intervene. DNB has the power to transfer customer deposits, assets and liabilities other than deposits and issued shares of an entity to third parties or to a bridge bank or insurer if DNB deems that, in respect of the relevant bank or insurer, there are signs of an adverse development with respect to its funds, solvency, liquidity or technical provisions and it can be reasonably foreseen that such development will not be sufficiently reversed in a timely fashion. DNB would also be granted the power to influence the internal decision-making of failing institutions.

The second category of measures can be applied if the stability of the financial system is in serious and immediate danger as a result of the situation of a bank or insurer and includes measures intended to safeguard the stability of the financial system as a whole. This set of measures grants authority to the Minister of Finance to take immediate measures or proceed to expropriation of assets or securities such as shares and debt obligations issued by the failing institution or its parent company.

The Dutch Intervention Act also contains measures that limit the ability of counterparties to invoke contractual rights (such as, for instance, contractual rights to terminate or to invoke a right of set-off or to require security to be posted) if the right to exercise such rights is triggered by intervention of DNB or the Dutch Minister of Finance based on the Dutch Intervention Act or by a circumstance which is the consequence of such intervention.

A few provisions of the Dutch Intervention Act, including the provision with respect to the future financing of the deposit guarantee and the investor compensation scheme, have not yet come into force and there are certain differences between the provisions of the Dutch Intervention Act and the Recovery and Resolution Directive proposal, which may result in future changes to the Dutch Intervention Act. See also "*—Dutch Regulatory Framework—Banking and banking-related regulation*".

General duty of care

A general duty of care has been introduced in the Netherlands in January 2014 for all financial service providers, such as insurance intermediaries. The general duty of care entails that a financial service provider must take the legitimate interests of a consumer or a beneficiary into account in a careful manner. In addition, a financial service provider providing advice must act in the interest of the consumer or beneficiary. The AFM can only issue an instruction within the meaning of Section 1:75 of the Dutch Financial Supervision Act in the case of obvious abuses that can damage the trust in the financial service provider or the financial markets.

Commission payment rules

On 1 January 2013, the commission payment rules for complex (non-MiFID) products were amended in the Netherlands by the introduction of a complete ban on third party commission payments. The ban means that financial service providers (e.g. insurance intermediaries with regard to life insurances) are no longer allowed to receive commission payments for acting as an intermediary or adviser in respect of these products. The ban only applies to contracts that were entered into on or after 1 January 2013.

In addition to this ban, a ban on third party commission payments for investment firms was introduced on 1 January 2014. The ban applies to the investment services (individual) asset management, investment advice and execution-only services of NN. The ban is limited to investment services to non-professional clients.

Remuneration

Variable pay constraints

As from 2011, credit institutions and investment firms based in Member States have to comply with the variable pay constraints following from CRD III (2010/76/EC) and the Guidelines on Remuneration Policies and Practices of the Committee of European Banking Supervisors (currently, the EBA) of 10 December 2010. These variable pay constraints are applicable to the international operations of credit institutions and investment firms based in Member States. DNB has implemented these variable pay constraints in the Regulation of DNB of 16 December 2010 on Sound Remuneration Policies pursuant to the Dutch Financial Supervision Act (*Regeling Beheerst beloningsbeleid Wft 2011*) and has extended the scope to include also Dutch-based insurance companies and their group companies. As a result the variable pay constraints apply to the insurance, bank and investment management activities of the Issuer. Consequently, unlike its competitors in the United States, Asia and other European countries, NN has to apply these variable pay constraints to staff in its European, U.S. and Asian operations. These pay constraints may limit NN's abilities to attract and retain top talented staff.

As of 1 January 2014, additional pay constraints pursuant to CRD IV, including a bonus cap of 100% of fixed pay (or 200% if shareholders approve), came into force, subject to the implementation in Dutch legislation, which is expected mid 2014. In principle, the CRD IV bonus cap does not apply to Dutch-based insurance companies. However, on 26 November 2013, the Dutch Minister of Finance circulated a draft bill for the Act on remuneration policies for financial enterprises (*Wet beloningsbeleid financiële ondernemingen*), which will also be applicable to Dutch-based insurance companies and their group companies. CRD IV allows Member States to introduce a more restrictive bonus cap. Through the draft bill, the Dutch legislator uses this possibility and introduces a cap of 20% of fixed pay. Although exceptions to the 20% cap will be available – especially for international operations of Dutch-based insurance companies – these new pay constraints may further limit the Issuer's abilities to attract and retain top talented staff.

Claw-back of bonuses

On 1 January 2014 the Dutch act on the revision and claw-back of bonuses and profit-sharing arrangements of directors and day-to-day management entered into force. The act applies to management board members of Dutch public companies, financial institutions as defined in the Dutch Financial Supervision Act, which includes banks and insurers. For financial institutions, the scope of the act is not limited to bonuses of management board members but also to those who are in charge of day-to-day management. The rules provide for the possibility to: (a) revise a bonus prior to payment, if unaltered payment of the bonus would be unacceptable pursuant to the criteria of "reasonableness and fairness", and (b) claw-back (part of) a paid bonus, if payment took place on the basis of incorrect information on the fulfilment of the bonus targets or conditions for payment of the bonus.

A specific provision applies in the event of a "change of control" situation for Dutch-listed companies, such as a public offer, a sale of a substantial part of the business, a merger or a demerger. In those situations the company must determine whether there is an increase in value of the securities that have been granted to a board member as part of his remuneration. Starting point is the value of the relevant securities four weeks before the public offer or merger/demerger is announced or a 2:107a Dutch Civil Code transaction is put to the shareholders' meeting. This original value must be compared with the value of the relevant securities on the day the board member either sells the securities or the board membership ends. If there is an increase in the value of the securities, the amount of the increase, to a certain maximum, must be deducted from the remuneration to be paid to the board member. Specific rules apply in relation to a merger and demerger. The change of control arrangement applies as well to Dutch public companies that are also or only listed at a regulated market on another Member State.

Dutch Financial Reporting Supervision Act

The Dutch Financial Reporting Supervision Act (*Wet toezicht financiële verslaggeving*) entered into force on 31 December 2006. The Dutch Financial Reporting Supervision Act replaced the statutory provisions governing legal proceedings on annual accounts and financial reports. Pursuant to the Dutch Financial Reporting Supervision Act, the AFM supervises the application of financial reporting standards by companies whose corporate seat is in the Netherlands and whose securities are listed on a regulated Dutch or foreign stock exchange. Under the Dutch Financial Reporting Supervision Act, the AFM has an independent right to: (a) request an explanation from listed companies to which the Dutch Financial Reporting Supervision Act applies regarding their application of financial reporting standards if, based on publicly known facts or circumstances, it has reason to doubt that their financial reporting meets the applicable standards, and (b) recommend to such companies the publication of further explanations.

If a listed company to which the Dutch Financial Reporting Supervision Act applies does not comply with such a request or recommendation, the AFM may request that the Enterprise Chamber of the Amsterdam Court of Appeal order the Issuer to: (a) prepare its financial reports in accordance with the Enterprise Chamber's instructions, and (b) provide an explanation of the way it has applied financial reporting standards to its financial reports.

Dutch Prevention of Money Laundering and the Financing of Terrorism Act

On 1 August 2008, the Prevention of Money Laundering and the Financing of Terrorism Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*) (the **PMLA**) entered into effect. The PMLA implements MLD3 in the Netherlands. The PMLA applies to, inter alia, financial institutions, including insurance companies and banks. The aim of the PMLA is to combat the laundering of the proceeds of crime and the financing of terrorism. The PMLA introduces a risk-oriented and principle-based approach and creates flexibility for the institutions. At the same time it implies greater responsibility. The institutions have to assess the risk exposure entailed by certain customers and products and have to align their efforts accordingly. Mandatory rules are no longer imposed on institutions on how to comply, but rather what has to be complied with. An institution, however, must ensure that its employees are familiar with the provisions of the PMLA and that they receive training in order to enable them to recognise unusual transactions. The PMLA imposes requirements regarding, inter alia, customer due diligence and the reporting of unusual transactions.

The PMLA is regularly changed. The most extensive change came into force on 1 January 2013, following the Mutual Evaluation Report of the Netherlands by the Financial Action Task Force of 25 February 2011. Supervision under the PMLA is conducted by, inter alia, DNB and the AFM.

Dutch Sanctions Act 1977

Sanctions are political instruments in the foreign and security policy of countries and international organisations (such as the United Nations and EU). In general, sanctions are mandatory instruments, used in response to breaches of international laws and human rights, or to effect change when legal or democratic principles are not being adhered to. Sanctions also play a role in the fight against terrorism. Usually, sanctions imposed by the United Nations are incorporated as soon as possible by the EU into European legislation.

EU sanctions regulations have direct effect in the Dutch legal system. The content of the regulations concerned indicate the kind of sanctions involved, their purport, and the states, territories, persons or entities they are aimed at.

The Dutch legal framework regarding sanctions is based on the Dutch Sanctions Act 1977. Pursuant to the Dutch Sanctions Act 1977, the Dutch government can issue subsidiary legislation through which a breach of international sanctions (e.g. EU sanctions regulations) is made a criminal offence. DNB is the designated authority for the supervision of banks and insurers for compliance with the provisions of the Dutch Sanctions Act 1977. DNB can take administrative measures for non-compliance, including imposing a cease-and-desist order or an administrative fine.

The Dutch Sanctions Act 1977 and subsidiary legislation impose requirements on financial enterprises, including insurers and banks, regarding their administrative organisation and internal control, which includes a reporting obligation.

NN may also be required to follow certain other economic and trade sanctions, such as programs administered by the Office of Foreign Asset Control that prohibit or restrict certain transactions with suspected countries, their governments and, in certain circumstances, their nationals.

Dutch Data Protection Act

This subparagraph is applicable to all NN businesses that are processing personal data in the Netherlands.

The Dutch Data Protection Act (*Wet bescherming persoonsgegevens*) entered into force on 1 September 2001. The legislation implemented EU Directive 95/46/EC of 4 October 1995 on the protection of individuals with regard to the processing of personal data and the free movement of such data and imposes restrictions on the collection, use and other forms of processing of personal data.

Under the Dutch Data Protection Act, personal data may only be processed if the criteria for making data processing legitimate are met. This safeguard is a prerequisite for all contemplated data processing. If the data processing is indeed legitimate (i.e. if the statutory criteria apply), then such processing must at all times comply with the rules set out in the Dutch Data Protection Act.

In the Netherlands, the Dutch Association of Banks and the Dutch Association of Insurers prepared a code of conduct for the processing of personal data by financial institutions that includes specific rules for healthcare insurers. This code was approved by the Dutch Data Protection Authority for a period of five years. While this approval lapsed on 5 February 2008, banks and insurers indicated that they would continue to comply with this code of conduct until a new one has been approved. On 30 July 2009, the Dutch Data Protection Authority announced its intention to approve a newly proposed draft code. Following this announcement, the Dutch Data Protection Authority approved this code on 13 April 2013 for a period of five years stating that, given the specific features of this sector, this code is a correct implementation of the Dutch Data Protection Act and other legislative provisions regarding the processing of personal data.

In January 2012 a formal draft of the new EU Data Protection Regulation was issued. This new regulation aims to (a) better protect personal data of EU citizens, (b) replace the current (national) legislation and (c) adjust it to twenty-first century requirements and technology. The EU Data Protection Regulation will be directly binding for EU countries. Note that it is unlikely that this new regulation will be in force before 2015.

Insurance and insurance-related regulation

The Dutch Financial Supervision Act provides that no entity with its registered office in the Netherlands may carry on the business of a life insurer or non-life insurer without an authorisation granted by DNB. The Dutch Financial Supervision Act contains similar provisions for cases where such a business is operated from a Netherlands-based branch of an institution with its registered office outside the EU. In the event that such business is operated from a Netherlands-based branch of an institution with its registered office within the EU, the "home country control" principle applies. See "*—EU Regulatory Framework—Insurance and insurance-related regulation*" for more information about the "home country control" principle.

Once an insurer has been allowed access to the market, the supervision consists of collecting and assessing information and, if necessary, acting on such information. DNB collects information in various ways: by receiving reports and documentation, conducting discussions and carrying out onsite investigations. More indirectly, DNB also uses information from analyses of developments in the financial sector and from contacts with other supervisory authorities. DNB can also make very specific requests for information from the insurer itself as well as from other parties involved. Based on the information, DNB carries out prudential analyses. The information and analysis together form the basis for the judgment as to whether an insurer is complying with the supervisory requirements. DNB uses its findings also in the operational supervision of the relevant insurer.

In the context of guiding, and intervening in, a supervised insurer, DNB has a number of tools at its disposal to direct the conduct of a supervised insurer. DNB can issue an instruction to an insurer instructing it to adopt a certain course of conduct on specific points. DNB can issue such an instruction if either: (a) the insurer fails to comply with the provisions of the Dutch Financial Supervision Act or related secondary legislation, or (b) DNB identifies signs of a development that may endanger the funds, solvency or liquidity of that insurer.

Further, DNB may appoint an administrator (*curator*) for all or some corporate bodies or representatives of an insurer, which means that those bodies or representatives may only exercise their powers after obtaining the administrator's approval. The situations in which DNB will resort to this measure correspond to the cases in which DNB can issue an instruction as set out above. In the event of the breach of certain provisions listed in the Dutch Financial Supervision Act, DNB can impose a cease-and-desist order or an administrative fine on the offending insurer. DNB also has certain powers under the Dutch Financial Supervision Act to make information public; this involves issuing a public warning and announcing a decision to impose an administrative fine or a cease-and-desist order.

Supervision of technical provisions

The Dutch Financial Supervision Act provides that an insurer must maintain technical provisions (*technische voorzieningen*). Technical provisions function as a buffer facility in order to cover possible claims by policyholders. The size of the technical provisions is dependent on the type of insurer concerned (e.g. life or non-life). An insurer must keep assets as a cover for the technical provisions. The relevant legislation prescribes what assets are permitted and what conditions and maximums apply to specific assets; DNB is the supervisory authority in this respect.

Solvency supervision

Pursuant to the Dutch Financial Supervision Act, insurers are obliged to meet solvency criteria. These criteria have been implemented in Dutch legislation pursuant to the EU insurance directives; see "—*EU Regulatory Framework—Insurance and insurance-related regulation—Solvency II Directive*". The purpose of the solvency criteria is to absorb unforeseen events such as an economic downturn or a shortfall of expectations in the insurer's investment activities. Different criteria apply to different types of insurance policies. DNB supervises the solvency criteria applicable to a Dutch insurer.

Solvency 1.5

On 1 January 2014, an interim solvency regulation (commonly referred to as Solvency 1.5) came into force in the Netherlands, in addition to Solvency I and in anticipation of Solvency II. The regulation fits within the Minister of Finance's strategy to make the supervision of insurance companies more risk-sensitive and forward-looking. One of the changes is the introduction of the Theoretical Solvability Criterion (*Theoretisch Solvabiliteitscriterium*) (**TSC**), which applies to large- and medium-sized life insurers in the Netherlands. The aim of the TSC is to ensure that after the realisation of some pre-defined stress scenarios, insurance companies still comply with their solvency requirement. The TSC is not a new solvency requirement, as the current regulatory regime, Solvency I, remains in force.

The TSC could lead to an early identification of insurers with a high-risk profile. The following risks are included in the TSC: equity risk, interest rate risk, property risk, spread risk, counterparty default risk, longevity and mortality risk, and cost risk. This framework provides for risk-based supervision and stronger insurance companies to anticipate the Solvency II framework.

Furthermore, on 1 January 2014 article 3:97 of the Dutch Financial Supervision Act came into force in the Netherlands. This article provides additional rules on when a Dutch-based insurer is required to obtain a declaration of no objection from DNB.

A declaration of no objection needs to be obtained if the insurer would like to reduce its own funds by means of (a) repayment of capital or (b) pay-out of reserves, while the insurer does not meet the solvency capital requirements (i) at the date of distribution or (ii) when it is foreseeable that the insurer will not meet the solvency capital requirements in the coming 12 months. The rule applies, for instance, to dividend distributions and the repayment of subordinated loans.

Since life insurers must on a yearly basis calculate their TSC on an annual basis, article 3:97 directly connects the TSC to a declaration of no objection from DNB. In case the solvency position of an insurer is below the level prescribed by the TSC, a declaration of no objection from DNB is required for dividend payments and other withdrawals from own funds; for example, the repayment of debt. Additionally, DNB could require the insurance company to submit a recovery plan.

Structural supervision

Holding an interest or control of 10% or more (*gekwalificeerde deelneming*, a qualifying holding) in a Dutch-based insurer or other financial enterprise (such as a Dutch bank or licensed investment manager), requires a declaration of no objection to be issued by DNB. A declaration of no objection is issued dependent on the outcome of an assessment of the potential holder of the participating interest. The shareholder, the shareholder's trustworthiness, the extent of control the shareholder will acquire over the insurer, possible conflicts with sound and prudent operations of the insurer, and other considerations are assessed before DNB issues or refuses a declaration of no objection.

Dutch Insurers' Code

The Dutch Association of Insurers' governance principles (the **Dutch Insurers' Code**) are applicable to the Dutch subsidiaries of the Issuer pursuing insurance business. The Dutch Insurers' Code was published in December 2010 by the Dutch Association of Insurers and lays out the principles for Dutch insurance companies in terms of corporate governance, risk management, audit and remuneration. The Dutch Insurers' Code is a form of self-regulation that took effect on 1 January 2011 on a 'comply or explain' basis, and was drawn up to contribute to restoring trust in the financial sector as a whole. An updated version of the Dutch Insurer's Code entered into force on 1 July 2013.

Insurance intermediaries

Conducting insurance intermediary services requires a licence. Under the Dutch Financial Supervision Act, an insurance intermediary (*verzekeringstussenpersoon*) is the party that advises (*adviseur*), provides brokerage services (including in respect of reinsurance) (*bemiddelaar*), or acts as an authorised agent (*gevolmachtigd agent*) given a power of attorney, or sub-power of attorney in respect of an insurance product. The supervision, exercised by the AFM, is focused on orderly and transparent financial market processes, integrity of relations between market players and due care in the provision of services to customers. Rules on the sale of insurance products to customers are based on the IMD; please see "*—EU Regulatory Framework—Insurance and insurance related regulation—Insurance Mediation Directive*" for more information on proposed regulation in this respect.

As of 1 January 2013, a ban on third party commission payments was introduced in the Netherlands. The ban means that, inter alia, insurance intermediaries are not allowed to receive commission payments for advising or providing brokerage services in respect of insurance products, other than non-life insurance products, and insurers are not allowed to pay such commission payments to insurance intermediaries. Consumers must pay the commission payments directly to the intermediary. Insurers are not allowed to waive commission payments when offering insurances directly (without being an insurance intermediary involved) to the consumer.

Insurance intermediaries advising or providing brokerage services in respect of non-life insurances may only receive commission payments to the extent these commission payments are appropriate and necessary for the services rendered by the intermediary. The intermediary must be transparent to the consumer on the commission payments received. The AFM has issued guidelines for the application of the commission payment rules that apply to non-life insurance intermediaries. An important part of the specific requirements that relate to commission payments are included in open standards. The AFM's guidelines mainly relate to these open standards, including the manner in which commissions should be made transparent. The AFM provides starting points for the application of the commission payment rules; for instance, through the use of examples.

Insurance intermediaries acting as an authorised agent may receive commission payments to the extent these payments are necessary for, or enable the provision of, the services.

Pensions

In the Netherlands there is a strict distinction between pension benefits as provided by the employer to its employees as an employment benefit and other private life insurance benefits. The main law in the Netherlands applicable to pension providers, including insurers of pension benefits, is the Dutch Pensions Act that as of 1 January 2007 replaced the Dutch Pensions and Savings Funds Act of 1953. Under and pursuant to the Dutch Pensions Act several additional regulations have been published and are applicable to providers of pension benefits. The prudential and material supervision of pension providers, such as industry-wide pension funds, occupational pension funds, company pension funds, and insurance companies is exercised by DNB under the Dutch Pensions Act. The AFM exercises the conduct supervision.

Funds and investment management-related regulation

The regulatory framework in relation to AIFMs, UCITS and investment services has been greatly harmonised throughout the EU through the AIFMD, the UCITS Directive and the MiFID. For a description of these EU regimes, see "*—EU Regulatory Framework—Investment management-related regulation*". In the Netherlands, the AIFMD, UCITS Directive and MiFID have been implemented in the Dutch Financial Supervision Act. The AFM is the licensing body for investment firms, managers of alternative investment institutions and UCITS as referred to in the Dutch Financial Supervision Act.

Banking and banking-related regulation

General

Prudential supervision of credit institutions is exercised by DNB under the Dutch Financial Supervision Act. No enterprise or institution established in the Netherlands may pursue the business of a credit institution unless it has obtained prior authorisation from DNB. Its supervisory activities under the Dutch Financial Supervision Act focus on the supervision of solvency, liquidity and administrative organisation, including risk management and internal control.

If, in the opinion of DNB, a credit institution fails to comply with the rules and regulations regarding the above-mentioned subjects, DNB will notify the credit institution and may instruct it to behave in a prescribed manner. If the credit institution does not respond to any such instructions to the satisfaction of DNB, DNB is allowed to exercise additional supervisory measures that may include the imposition of fines or withdrawal of its banking licence. The Dutch Financial Supervision Act provides that each supervised credit institution must submit periodic reports to DNB.

With regard to supervision of investment services MiFID is implemented in the Dutch Financial Supervision Act; see "*—EU Regulatory Framework—MiFID*".

Solvency supervision

CRD represents the translation of the Basel framework into EU legislation; see "*—EU Regulatory Framework—Banking and banking-related regulation*". The latest changes in the Basel framework were translated into CRD IV and the EU Capital Requirement Regulation. The Directive will be implemented into the Dutch Financial Supervision Act and adjoining regulations issued pursuant thereto and is expected to enter into force in the second half of 2014. The Capital Requirement Regulation is directly applicable since 1 January 2014, resulting in more stringent rules and, in comparison with the former Dutch framework, additional reporting requirements apply. Since supervisory authorities and explanation of regulations also lie with EBA, DNB has less room to exercise discretion and specific Dutch policies.

Liquidity supervision

Banks are required to report their liquidity position on a consolidated level to DNB on a monthly basis. The liquidity reporting rules seek to ensure, inter alia, that banks are in a position to cope with an acute short-term liquidity shortage, on the assumption that banks would remain solvent. In principle, the liquidity reporting rules cover all direct domestic and foreign establishments (subsidiaries/branches), including majority participations. The regulatory report also takes into consideration the liquidity effects of derivatives and the potential drawings under committed facilities. The liquidity regulation places emphasis on the short term.

Structural supervision

An interest or control of 10% or more in a Dutch-based bank requires a declaration of no objection issued by DNB; see "*—Dutch Regulatory Framework—Insurance and insurance-related regulation—Supervision of financial groups*". Aside from this declaration of no objection requirement, banks may also be required to apply for a declaration of no objection for obtaining or increasing a qualifying holding in another company. This is the case if the participating interest exceeds a given threshold value; for example, when the participating interest constitutes more than 1% of the balance sheet total of the receiving bank.

In addition, a bank requires a declaration of no objection for specific acts; for example, if it wishes to reduce its own funds or alter its financial or corporate structure.

Supervision of financial groups

See "—*EU Regulatory Framework—Banking and banking-related regulation—EU crisis management framework*".

Deposit guarantee scheme

In August 2011, the Dutch Ministry of Finance and DNB published their proposal to establish an *ex-ante* funded (i.e. pre-funded) deposit guarantee scheme in the Netherlands. The scheme was expected to be introduced on 1 July 2013. However, as a consequence of the arrangements made by the Dutch government related to the nationalisation of SNS REAAL, ING Bank and the other Dutch banks will be required to pay a one-time levy of EUR 1 billion in 2014. NN Bank is expected to pay a one-time levy of approximately EUR 10 million in 2014. To avoid a disproportionate financial burden for banks and in view of the ability of banks to lend to the real economy, the *ex-ante* deposit guarantee scheme contribution has now been postponed by two years until 1 July 2015. Specifics of the new rules and obligations are still under discussion. These new rules concerning the deposit guarantee scheme are relevant for NN Bank.

Dutch Banking Code

The Dutch Banking Association has drawn up governance principles for banks (the **Dutch Banking Code**). In March 2013 the Banking Code Monitoring Commission (*Monitoring Commissie Code Banken*) published the outcome of its review report of the Dutch Banking Code, "Recommendations regarding the Future of the Banking Code". The Dutch Banking Association currently investigates what changes should be made to the Dutch Banking Code, also taking into account the above mentioned recommendations. An updated version is expected to enter into force in the second half of 2014.

Other Dutch regulatory developments

There are still various areas where new rules in the Dutch regulatory framework are to be expected. For example the proposal is to expand the scope of the oath from executive and supervisory board members to certain employees of banks and insurance companies and to apply disciplinary rules. Furthermore, the proposal to implement a financial transaction tax is generally supported by the Dutch government and as already mentioned above the Dutch rules regarding the recovery plans for banks might need revision by implementing the EU Recovery and Resolution Directive.

13. TAXATION

General

The following summary outlines certain principal Dutch tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Dutch tax considerations that may be relevant. For the purposes of Dutch tax law, a Noteholder may include an individual or entity who does not have the legal title of these Notes, but to whom nevertheless the Notes or the income thereof is attributed based on specific statutory provisions or on the basis of such individual or entity having an interest in the Notes or the income thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser about the tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes.

This summary is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Dutch tax consequences for:

(a) investment institutions (*fiscale beleggingsinstellingen*);

(b) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other entities that are not subject to or exempt from Dutch corporate income tax;

(c) holders of Notes holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in the Issuer and holders of Notes of whom a certain related person holds a substantial interest in the Issuer. Generally speaking, a substantial interest in the Issuer arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold: (i) an interest of 5% or more of the total issued capital of the Issuer or of 5% or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest, or (iii) certain profit-sharing rights in the Issuer;

(d) persons to whom the Notes and the income from the Notes are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) and the Dutch Gift and Inheritance Tax Act 1956 (*Successiewet 1956*);

(e) entities which are a resident of Aruba, Curacao or Saint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Saint Eustatius or Saba and the Notes are attributable to such permanent establishment or permanent representative; and

(f) individuals to whom Notes or the income therefrom are attributable to employment activities which are taxed as employment income in the Netherlands.

Where this summary refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom.

Withholding tax

All payments made by the Issuer under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Dutch or any political subdivision or taxing authority thereof or therein.

Corporate and individual income tax

Residents of the Netherlands

If a Noteholder is a resident of the Netherlands or deemed to be a resident of the Netherlands for Dutch corporate income tax purposes and is fully subject to Dutch corporate income tax or is only subject to Dutch corporate income tax in respect of an enterprise to which the Notes are attributable, income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are generally taxable in the Netherlands (at up to a maximum rate of 25%).

If an individual is a resident of the Netherlands or deemed to be a resident of the Netherlands for Dutch individual income tax purposes, or has opted to be treated as a resident of the Netherlands for individual income tax purposes income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are taxable at the progressive rates (at up to a maximum rate of 52%) under the Dutch Income Tax Act 2001, if:

(a) the individual is an entrepreneur (*ondernemer*) and has an enterprise to which the Notes are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Notes are attributable; or

(b) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which includes activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (a) nor condition (b) above applies, an individual that holds the Notes must determine taxable income with regard to the Notes on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments has been fixed at a rate of 4% of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year (1 January), insofar as the individual's yield basis exceeds a certain threshold (*heffingvrij vermogen*). The individual's yield basis is determined as the fair market value of certain qualifying assets held by the individual less the fair market value of certain qualifying liabilities on 1 January. The fair market value of the Notes will be included as an asset in the individual's yield basis. The 4% deemed return on income from savings and investments is taxed at a rate of 30%.

Non-residents of the Netherlands

If a person is not a resident of the Netherlands nor is deemed to be a resident of the Netherlands for Dutch corporate or individual income tax purposes, nor has opted to be treated as a resident of the Netherlands for individual income tax purposes, such person is not liable to Dutch income tax in respect of income derived from the Notes and gains realised upon the settlement, redemption or disposal of the Notes, unless:

(a) the person is not an individual and such person: (i) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (ii) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Notes are attributable;

This income is subject to Dutch corporate income tax at up to a maximum rate of 25%.

(b) the person is an individual and such individual (i) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (ii) realises income or gains with respect to the Notes that qualify as income from miscellaneous activities in the Netherlands which includes activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*), or (iii) is other than by way of securities entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

Income derived from the Notes as specified under (i) and (ii) is subject to individual income tax at progressive rates up to a maximum rate of 52%. Income derived from a share in the profits of an enterprise as specified under (iii) that is not already included under (i) or (ii) will be taxed on the basis of a deemed return on income from savings and investments (as described above under "*—Residents of the Netherlands*"). The fair market value of the share in the profits of the enterprise (which includes the Notes) will be part of the individual's Dutch yield basis.

Gift and inheritance tax

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder of a Note, unless:

(a) the holder of a Note is, or is deemed to be, resident in the Netherlands for the purpose of the relevant provisions; or

(b) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

Value added tax

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of a cash payment made under the Notes, or in respect of a transfer of Notes.

Other taxes and duties

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

On 24 March 2014, the EC adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the Directive to include certain additional types of income, and widen the range of recipients of payments covered by the Directive, to include certain other types of entities and legal arrangements. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

Foreign Account Tax Compliance Act

FATCA imposes a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (a) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) and to provide the IRS with certain information in respect of its U.S. account holders and U.S. investors, or is not otherwise exempt from or in deemed compliance with FATCA, and (b) any person (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether such person is a U.S. person or should otherwise be treated as holding a "United States account" of the relevant Participating FFI (a **Recalcitrant Holder**). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to 'foreign passthru payments' (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of the Notes (a) if the Notes are characterised as debt for U.S. federal tax purposes and issued on or after the grandfathering date, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term 'foreign passthru payment' are filed with the Federal Register, or if such Notes are materially modified on or after the grandfathering date, and (b) if the Notes are characterised as equity, whenever issued. The Issuer intends to treat the Notes as debt for U.S. federal income tax purposes. However, one possible alternative characterisation is that the IRS could assert that the Notes should be treated as equity for U.S. federal income tax purposes.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on 'foreign passthru payments' and payments that it makes to Recalcitrant Holders. Each of the Model IGAs states that alternatives to achieve the policy objectives of 'foreign passthru payment' withholding could be addressed in the future. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the Netherlands have signed an agreement based largely on the Model 1 IGA (the **U.S.-Netherlands IGA**).

The Issuer expects to be a Reporting FI under the U.S.-Netherlands IGA, though no assurance can be given that the Issuer will be a Reporting FI. If the Issuer is not a Reporting FI and becomes a Participating FFI, and the Notes are not grandfathered (as discussed above), the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (a) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed in compliance with FATCA, or (b) an investor is a Recalcitrant Holder. However, whilst the Notes are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect such payments on the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then payment made on the Notes by or on behalf of the Issuer to non-FATCA compliant holders could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application to securities such as the Notes is uncertain. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER, (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN, AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

14. PURCHASE AND SALE OF THE NOTES

GENERAL

The Managers have, pursuant to a purchase agreement dated 4 April 2014 (the **Purchase Agreement**), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to purchase the Notes at the issue price of 99.039% of their principal amount, less a combined management and underwriting commission. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Purchase Agreement entitles the Managers to terminate it in certain circumstances prior to payment in respect of the Notes being made to the Issuer.

Neither the Issuer nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including road show materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this Prospectus or any Notes may come are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Each Manager has agreed that it will, to the best of its knowledge, comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Rule 902 (k) of Regulation S under the U.S. Securities Act) unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) or any successor regulation in substantially the same form for the purposes of Section 4701 of the Code. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

Each Manager has agreed that it will offer, sell or deliver the Notes (a) as part of their distribution at any time, and (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date only in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or another available exemption from registration under the U.S. Securities Act and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the UK Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the **Corporations Act**) in relation to the Notes has been or will be lodged with the Australian Securities and Investments Commission (**ASIC**). Each Manager has represented and agreed that it:

(a) has not (directly or indirectly) offered, and will not offer for issue or sale and has not invited, and will not invite, applications for issue, or offers to purchase, the Notes in, to or from Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, any information memorandum, advertisement or other offering material relating to the Notes in Australia,

unless (i) the aggregate consideration payable by each offeree or invitee is at least AUD 500,000 (or its equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act, (ii) such action complies with all applicable laws, regulations and directives, and (iii) such action does not require any document to be lodged with ASIC.

Canada

The Notes will not be qualified for sale under the securities laws of any province or territory of Canada. Each Manager has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Notes, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each Manager has also represented and agreed that it has not and will not distribute or deliver this Prospectus, or any other offering material in connection with any offering of Notes in Canada, other than in compliance with applicable securities laws.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the **Financial Instruments and Exchange Act**). Accordingly, each Manager has represented and agreed, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, of Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

General

The offering of the Notes to persons resident in, or who are citizens of, a particular jurisdiction may be affected by the laws of that jurisdiction. Investors should consult their professional advisers as to whether the investor requires any governmental or any other consent or needs to observe any other formalities to enable the investor to purchase the Notes.

15. GENERAL INFORMATION

The Issuer

The Issuer is a public limited company (*naamloze vennootschap*) organised under Dutch law, and incorporated on 29 March 2011 under the name ING Insurance Topholding N.V. On 28 February 2014, the Issuer entered into a legal merger with its wholly owned subsidiary ING Verzekeringen N.V. As a result of this merger, ING Verzekeringen N.V. ceased to exist by operation of law and the Issuer acquired all assets and liabilities of ING Verzekeringen N.V. under universal title of succession. On 1 March 2014, the legal merger became effective and the Issuer was renamed NN Group N.V.

The Issuer has its corporate seat in Amsterdam, the Netherlands, and its registered office at Amstelveenseweg 500, 1081 KL Amsterdam, the Netherlands, telephone number +31 (0)20 5415566. It is registered with the trade register held by the Chamber of Commerce under number 52387534. According to Article 3 of the Articles of Association, its objectives are to participate in, conduct the management of, finance and furnish personal or real security for the obligations of and provide services to other enterprises and institutions, of whatever kind, but in particular enterprises and institutions active in the insurance business, the credit business, investments and/or other financial services, a as well as to perform all that which is related or may be conducive to the foregoing.

Share capital

As a result of the merger between the Issuer and ING Verzekeringen N.V., the shares in the capital of ING Verzekeringen N.V., the entity ceasing to exist, have been cancelled. No shares were issued by the Issuer in the context of the merger. As at the date of this Prospectus, the authorised share capital of the Issuer amounts to EUR 225,000 consisting of 225,000 ordinary shares with a nominal value of EUR 1 each and the issued and paid-up capital amounts to EUR 45,000, consisting of 45,000 ordinary shares with a nominal value of EUR 1 each.

At the date of this Prospectus, all shares in the Issuer are held by ING Groep. The rights of the shareholder are described in the Articles of Association.

Authorisation

The issue of the Notes was duly authorised by the Management Board on 17 March 2014 and by the Supervisory Board on 17 March 2014.

Listing

Application has been made to Euronext for the Notes to be listed on Euronext Amsterdam on or about 8 April 2014. References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been listed and admitted to trading on Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The estimated total costs involved with such listing and admission to trading will be an amount of up to EUR 51,500.

Clearing systems

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 105452292. The International Securities Identification Number (ISIN) for the Notes is XS1054522922.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

Responsibility

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Third party information

Any information sourced from a third party contained in this Prospectus has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Recent developments

In view of the agreement reached with the EC to divest the Japan Life and Japan Closed Block VA businesses in line with the divestment timeline for NN (see "*Supervision and Regulation—EC Restructuring Plan*") and in preparation for the envisaged Share Offering, NN has implemented a number of reporting changes to increase transparency of reporting and ensure consistency in the accounting of the different products within the closed block SPVA portfolio. These accounting changes are reflected in the 2013 consolidated financial statements, except for the change of accounting for death benefit guarantees within Japan Closed Block VA towards fair value accounting, bringing the entire Japan business towards fair value accounting. This change was implemented as from 1 January 2014 and represents a change in accounting policy under IFRS with a transitional impact of EUR 165 million after tax being reflected only in shareholders' equity as of 1 January 2014.

In February 2014, several subsidiaries of ING Groep, including several subsidiaries of the Issuer, the ING Pension Fund and the trade unions (CNV Dienstenbond, FNV Finance and De Unie) reached agreement on the transfer of all future funding and indexation obligations towards the ING Pension Fund. See "*Business—Material agreements—ING Pension Fund agreement*" for further details. As part of the agreement ING and NN will be released from all financial obligations arising out of the Dutch defined benefit plan, of which all benefits, as accrued up to 2014 in the ING Pension Fund, have been made paid-up (*premievrije aanspraken*). Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from ING and NN's balance sheets. The removal from NN's balance sheet of the net pension asset related to the ING Pension Fund of approximately EUR 0.4 billion, NN's contribution to the payment to the ING Pension Fund of EUR 211 million and the reduction of the employees' own contribution to the pension premium result in a charge of approximately EUR 0.4 billion (after tax), recognised, as a special item, in the results over the first quarter of 2014.

No significant change

Except as set out above under "*—Recent developments*", there has been no significant change in the financial or trading position of the Issuer and its consolidated subsidiaries since 31 December 2013 and there has been no material adverse change in the prospects of the Issuer since 31 December 2013.

Auditors

The Issuer's consolidated financial statements for the year ended 31 December 2013 and the consolidated financial statements of the Issuer's predecessor ING Verzekeringen N.V. for the year ended 31 December 2012 have been audited by Ernst & Young Accountants LLP, independent auditors. The auditors of Ernst & Young Accountants LLP are members of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*). Ernst & Young Accountants LLP is located at Antonio Vivaldistraat 150, 1083 HP Amsterdam, the Netherlands.

Ernst & Young Accountants LLP have issued unqualified auditor's reports on the consolidated financial statements for the years ended 31 December 2013 and 2012 dated 17 March 2014 and 18 March 2013, respectively. These auditor's reports have been included in the form and context in which they appear with the consent of Ernst & Young Accountants LLP, who have authorised the contents of these auditor's reports.

U.S. tax

The Notes and Coupons will contain the following legend: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*".

Documents on display

For the period of 12 months following the date of this Prospectus, a copy of the Fiscal Agency Agreement will be available for inspection from the registered office of the Issuer and from the specified offices of the Paying Agent for the time being The Bank of New York Mellon, One Canada Square, London, E14 5AL, United Kingdom.

This Prospectus will be published at the Issuer's website (currently www.nn.eu; section "Press") and, until ING Groep has divested more than 50% of its shareholding in the Issuer, on ING Groep's website (www.ing.com; section "Investor relations—Fixed income information").

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to the issue of the Notes.

Interests material to the issue

To the Issuer's knowledge, there are no interests of natural and legal persons involved in the issue, including conflicting ones, that are material to the issue.

Managers transacting with the Issuer

The Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Rating

The Notes are expected to be rated BBB- by Standard & Poor's and Baa3 by Moody's. The Issuer has been assigned a rating of BBB+ (stable) by Standard & Poor's and Baa2 (negative) by Moody's and A- (negative) by Fitch. Each of Standard & Poor's, Moody's and Fitch is established in the EU and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended.

16. DEFINITIONS

The following definitions are used throughout this Prospectus:

2010 PD Amending Directive	the Directive 2010/73/EU of the European Parliament and of the Council of the EU amending EU Directive 2003/71/EC, including all relevant implementing measures
2009 Restructuring Plan	the restructuring plan submitted to the EC by ING Groep in October 2009 as approved by the EC in November 2009
2012 Restructuring Plan	the amended 2009 Restructuring Plan as approved by the EC in November 2012
2013 Annual Accounts	NN's audited consolidated financial statements for the financial year ended 31 December 2013, included herein
2013 Restructuring Plan	the amended 2012 Restructuring Plan as approved by the EC in November 2013
ABS	asset-backed securities
AFM	the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*)
AFR	available financial resources
AIF	alternative investment fund
AIFM	alternative investment fund manager
AIFMD	EU directive on alternative investment fund managers
APE	annual premium equivalent, calculated as the total amount of recurring premiums from new business plus 10% of the total amount of single premiums on business written during the year
Articles of Association	the articles of association of the Issuer
AuM	assets under management
Basel II	the Basel Accord of 2004, the revised capital adequacy framework developed for the banking sector by the Basel Committee
BNP	BNP Paribas
CAGR	compounded annual growth rate
CBS	Statistics Netherlands (*Centraal Bureau voor de Statistiek*)
Citigroup	Citigroup Global Markets Limited
Co-Lead Managers	BNP, Citigroup, Rabobank International and RBC
COLI	corporate-owned life insurance
ComFrame	Common Framework for the Supervision of IAIGs

Corporations Act	Corporations Act 2001 of Australia
CPPI	constant proportion portfolio insurance
CRD	EU Capital Requirements Directive
CRD III	Directive 2010/76/EC
CRD IV	Directive 2013/36/EC and Regulation EU No. 575/2013
Deutsche Bank	Deutsche Bank AG, London Branch
De Nederlanden	*Assurantie Maatschappij tegen Brandschade N.V.*, later renamed to *De Nederlanden van 1845 N.V.*
DNB	the Dutch Central Bank (*De Nederlandsche Bank N.V.*)
Dutch Banking Code	the Dutch Banking Association's (*Nederlandse Vereniging van Banken*) governance principles
Dutch Financial Supervision Act	the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder
Dutch Insurers' Code	Dutch Association of Insurers' governance principles
D&A	disability and accident
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EC Restructuring Plan	the 2009 Restructuring Plan, together with the 2012 and 2013 Restructuring Plans
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
ESFS	European System of Financial Supervision
ESMA	European Securities and Market Association
EU	European Union
EUR or **euro** or **€**	the currency of the European Monetary Union
Euronext	Euronext Amsterdam N.V.
Euronext Amsterdam	NYSE Euronext in Amsterdam

FATCA	Foreign Account Tax Compliance Act
FATCA Withholding	withholding under FATCA or an IGA (or any law implementing an IGA) by an FFI
FFI	foreign financial institution
Financial Instruments and Exchange Act	Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended)
Fitch	Fitch Ratings Ltd.
FSMA	UK Financial Services and Markets Act 2000
FTE	full-time equivalent
FTT	financial transaction tax
GDP	gross domestic product
GWP	gross written premiums; total premiums (whether or not earned) for insurance contracts written or assumed during a specific period, without deduction for premiums ceded
G-SIFI	global systemically important financial institution
G-SII	global systemically important insurer
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards as adopted by the EU
IGA	intergovernmental agreement
IGD ratio	the solvency ratio at the group level of an insurance group, which insurance companies that are member of an insurance group must calculate on the basis of Directive 98/78/EC.
ILU	the Institute of London Underwriters
Independent Source	an independent industry publication, government publication, report by a market research firm or another independent publication
ING	ING Groep and its subsidiaries (including ING Bank and excluding NN)
ING Bank	ING Bank N.V. and its subsidiaries and branches
ING Bank Poland	ING Bank Slaski S.A.
ING Bank Turkey	ING Bank A.S.
ING Bank Romania	ING Bank N.V., Bucharest branch

ING Bank Belgium	ING België NV
ING Bank Spain	ING Bank N.V., Spain branch
ING Bank Luxembourg	ING Luxembourg S.A.
ING Groep	ING Groep N.V.
ING Insurance Eurasia	ING Insurance Eurasia N.V.
ING Pension Fund	the Dutch ING pension fund (*Stichting Pensioenfonds ING*)
ING U.S.	ING U.S., Inc.
IPT	insurance premium tax
Issuer	NN Group N.V., formerly known as ING Insurance Topholding N.V., which company merged with ING Verzekeringen N.V. on 1 March 2014.
IRS	U.S. Internal Revenue Service
IT	information technology
IVR	ING Verzekeringen Retail
Joint Lead Managers	Deutsche Bank, ING Bank, J.P. Morgan and Morgan Stanley
J.P. Morgan	J.P. Morgan Securities plc
KNF	The Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*)
L&O	The London and Overseas Insurance Company PLC, which has subsequently been renamed London and Overseas Insurance Company Limited.
Management	NN's management
Management Board	the management board (*raad van bestuur*) of the Issuer
Member State	a member state of the EU
MiFID	the EU Markets in Financial Instruments Directive
MiFID II	the revised EU Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MLD1	EU Anti-Money Laundering Directive 91/308/EE
MLD2	EU Anti-Money Laundering Directive 2001/97/EC
MLD3	EU Anti-Money Laundering Directive 2005/60/EC
MLD	the EU Anti-Money Laundering Directive

Moody's	Moody's Investors Service Ltd.
Morgan Stanley	Morgan Stanley & Co. International plc
Nationale	Nationale Levensverzekering-Bank N.V.
Nationale-Nederlanden Poland	ING Towarzystwo Ubezpieczen na Zycie S.A. and ING Powszechne Towarzystwo Emerytalne S.A.
Nationale-Nederlanden Poland Pensions	ING Powszechne Towarzystwo Emerytalne S.A.
Nationale-Nederlanden Poland Life	ING Towarzystwo Ubezpieczen na Zycie S.A.
Nationale-Nederlanden Spain	Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A. and Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.
Nationale-Nederlanden Spain Life	Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.
NN	the Issuer and its subsidiaries
NN Bank	Nationale-Nederlanden Bank N.V. and its subsidiaries
NN Belgium	ING Life Belgium NV and ING Non-Life Belgium NV
NN Belgium Life	ING Life Belgium N.V.
NN Bulgaria	ING Pensionno-Osigoritelno Druzestvo EAD and ING Biztosító Zártkörûen Mûködõ Részvénytársaság (a branch of ING Biztosító Zártkörûen Mûködõ Részvénytársaság in Hungary)
NN Czech Republic	ING Životná poisťovňa, a.s., pobočka pro Českou republiku (a branch of Nationale-Nederlanden Levensverzekering Maatschappij N.V. in the Netherlands), ING pojistovna, a.s., ING Penzijní společnost, a.s. and ING Tatry-Sympatia, d.d.s., a.s. (a branch of ING Tatry – Sympatia, d.d.s., a.s. in Slovak Republic)
NN Greece	ING Greek Life Insurance Company S.A. and its subsidiary ING Greek Insurance Brokerage S.A.
NN Greece Life	ING Greek Life Insurance Company S.A.
NN Hungary	ING Biztosító Zártkörûen Mûködõ Részvénytársaság
NN Investment Partners	ING Investment Management Holdings N.V. and its subsidiaries
NN Investment Partners Holding	ING Investment Management Holdings N.V.
NN Japan	ING Life Insurance Company, Ltd.
NN Life	Nationale-Nederlanden Levensverzekering Maatschappij N.V.
NN Luxembourg	ING Life Luxembourg S.A.

NN Non-Life	Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
NN Re	NN's reinsurance business, as conducted by ING Re (Netherlands) N.V., ING Re (Ireland) Ltd. and ING Reinsurance Company International Ltd.
NN Re Netherlands	ING Re (Netherlands) N.V.
NN Romania	ING Asigurari de Viata S.A. and ING Pensii Societate de Administrare a unui Fond de Pensii Administrat Privat S.A.
NN Slovak Republic	ING Životná poist'ovna, a.s., ING Tatry – Sympatia, d.d.s., a.s. and ING Dochodková správcovská spoločnos', a.s.
NN Turkey	ING Emeklilik A.Ş and its subsidiaries
OECD	Organisation for Economic Co-operation and Development
Omnibus II	directive to revise the Solvency II Directive
OPF	open pension fund
Ordinary Shares	the ordinary shares in the capital of the Issuer
Orion	Orion Insurance Company PLC, which has subsequently been renamed OIC Run-Off Limited
Participating FFI	FFI that has entered into an agreement with the IRS
PMLA	Prevention of Money Laundering and the Financing of Terrorism Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*)
PPI	premium pension institution (*premie pensioen instelling*) that can operate a defined contribution pension scheme
Prospectus	this prospectus dated 4 April 2014
Prospectus Directive	EU Directive 2003/71/EC of the European Parliament and of the Council of the EU (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), including all relevant implementing measures
Purchase Agreement	agreement between the Issuer and the Managers dated 4 April 2014
P&C	property and casualty
Rabobank International	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International)
RBC	RBC Europe Limited
Recalcitrant Holder	any investor (unless exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer
Reclassified Balance Sheets	the reclassified balance sheets, which NN provides, on a voluntary basis, in addition to the historical balance sheets, for the years 2012 and 2011, which are comparable to the consolidated balance sheets for the year 2013

Recovery and Resolution Directive	proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms published by the EC on 6 June 2012
Relevant Member State	each member state of the EEA that has implemented the Prospectus Directive
Reporting FI	an FFI in an IGA signatory country not subject to withholding under FATCA on any payments it receives
SCR	solvency capital requirements
Share Offering	the divestment of Ordinary Shares by ING Groep
SIFI	systemically important financial institution
SME	small- or medium-sized enterprise
Solvency 1.5	amendments in the regulatory framework for insurance companies introduced by the Dutch Ministry of Finance in April 2013
Solvency I	European regulatory framework for the prudential supervision of insurance and reinsurance companies
Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 and the implementing measures by the EC thereunder, as amended
SPVA	single premium variable annuity
Standard & Poor's	Standard & Poor's Credit Market Services Europe Limited
SulAmérica	SulAmérica S.A.
Supervisory Board	the supervisory board (*raad van commissarissen*) of the Issuer
TFEU	Treaty on the Functioning of the European Union
TSC	theoretical solvability criterion
UCITS	EU Undertakings for Collective Investment in Transferable Securities
United Kingdom or **UK**	the United Kingdom of Great Britain and Northern Ireland
United States or **U.S.**	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
USD	United States dollar
VA	variable annuity
U.S. Securities Act	the United States Securities Act of 1933, as amended
WUB	WestlandUtrecht Bank N.V.

17. GLOSSARY OF INSURANCE AND INVESTMENT MANAGEMENT TERMS

actuarial consulting firm	specialised firm for life insurance focused on advising mid- and large-sized corporate customers on pension plans, and work on a fee basis
annual premium	an insurance policy where the policyholder makes periodic payments; the annual premium includes the annualised amount of premiums that occur at different frequencies than annual
annuity	a contract between an annuitant and an insurance company, under which the annuitant makes a lump sum payment or a series of payments; in return, the insurer agrees to make periodic payments to the annuitant beginning immediately or at some future date
asset-backed securities; ABS	a type of bond or note that is based on pools of assets, or collaterised by the cash flows from a specified pool of underlying assets
bancassurance	insurance companies using a bank's distribution network, including branches, call centres, financial centres and internet platforms to reach customers and distribute their products
bank annuities	a long-term savings and investment product that provides economic returns to customers that are similar to, and otherwise substitute for, individual life annuity products in the Netherlands
brokers	companies (traditional broker companies as well as product comparison websites) that offer a variety of products from a wide range of insurance companies; the advisory services are more standardised and usually based on the cross-product comparison of certain characteristics
cede; ceding insurer; cession	when an insurer reinsures its risk with another insurer (a "cession"), it "cedes" business and is referred to as the "ceding insurer"
claim	a demand made by the insured, or the insured's beneficiary, for payment of the benefits as provided by the policy
closed block	the block of business is closed, meaning the insurer no longer writes new business although existing policies within the closed block remain in effect (and the insurer may continue to collect premiums) until they run off
combined ratio	the sum of the loss ratio and the expense ratio for a non-life insurance company or a reinsurance company; a combined ratio below 100 generally indicates profitable underwriting; a combined ratio over 100 generally indicates unprofitable underwriting; an insurance company with a combined ratio over 100 may be profitable to the extent net investment results exceed underwriting losses
defined benefit	a pension plan where specified benefits are accrued that equal a certain percentage of the insured's "pensionable income" for each year that the insured participates in the plan; after the pension date, the insured will receive a predetermined fixed annuity, including or excluding corrections for inflation
defined contribution	a pension plan where specified contributions are paid into an account for the insured and then invested, with returns credited to the employee's account; upon termination of the plan, the balance of the employee's account is used to purchase an annuity
direct channel	distribution through proprietary channels of insurance companies and banks, respectively (e.g. online platforms, call centres, in-house advisers)

economic capital	the minimum amount of capital that is required to absorb unexpected losses in times of severe stress; for NN the economic capital is calculated based on a confidence level of 99.5%, which is aligned with the Solvency II Directive
expense ratio	the ratio of non-life insurance or reinsurance operating expenses (acquisition costs, plus policy administration expenses, less reinsurance commission and profit participation) to net earned premiums; these operating expenses are also referred to as technical expenses
general account	the assets of an insurance company that support its insurance and other obligations (excluding unit-linked (separate account) obligations)
group insurance	insurance of a collective pension plan for a group of employees, usually taken out by an employer that is not affiliated with an industry-wide or company pension fund
high-net-worth individual	a person with a high net worth; these individuals have investable finance (financial assets not including primary residence) in excess of EUR 1 million
independent agent	advisers that sell products from more than one insurer, taking into account product characteristics and the supplier when helping a customer choose; compensation is based on fees and/or commissions
individual insurance	life insurance for an individual and his family
intermediaries	independent intermediaries through which life and non-life insurance products and pension funds are distributed, which include independent agents, actuarial consulting firms, brokers and mandated brokers; for the avoidance of doubt, each type of intermediary may not be used in each geographical market
loss	an injury, harm, damage or financial detriment that a person sustains; losses may be covered, limited or excluded from coverage, depending on the terms of the policy
loss ratio	the ratio of a non-life insurance or reinsurance company's net incurred losses and loss adjustment expenses to net earned premiums
mandated broker	a company offering insurance policies under its own brand with a mandate from an insurance company to underwrite policies; however, the insurance company bears the risk related to the issued policies
mass affluent retail customers	customers who hold EUR 50,000 to EUR 1 million in liquid assets
money market fund	fund investing in money-market instruments (certificate of deposit, treasury bills and bank deposits) with a short average maturity (typically less than six months)
penetration rate	indicates the level of development of the insurance sector in a country and is measured as the ratio of GWP to the GDP in a particular year; the penetration rate is calculated as follows: penetration rate = GWP/GDP * 100%.
recurring premium	an insurance policy where the policyholder makes periodic payments
reinsurance	the practice whereby one insurer, called the reinsurer, in consideration for premiums received, agrees to indemnify the reinsured or ceding insurer for part or all of the liability assumed by the reinsured under a contract or contracts of insurance which the reinsured has issued; the legal rights of the insured generally are not affected by the reinsurance transaction, and the

	insurance enterprise issuing the insurance contract remains liable to the insured for payment of policy benefits
reserves	liabilities established by insurers and reinsurers to reflect the estimated cost of claims payments and benefits payments and the related expenses that the insurer or reinsurer will ultimately be required to pay in accordance with the insurance or reinsurance it has written
retention	the amount or portion of risk which a ceding insurer retains for its own account; losses and loss expenses paid by the ceding insurer in excess of the retention level are then reimbursed to the insurer by the reinsurer; in proportional insurance, the retention may be a percentage of the original policy's limit; in non-proportional insurance, the retention is an amount of loss, a loss ratio or a percentage
rider	provision of an insurance policy that is purchased separately from the basic policy and that provides additional benefits
separate account	an investment account established and maintained by an insurer to which funds have been allocated for certain insurance policies or contracts of the insurer. The income, gains and losses realised from assets allocated to the account are, in accordance with the insurance policies or contracts, credited to or charged against the account without regard to other income, gains or losses of the insurer or the insurer's other separate accounts. Separate accounts cannot generally be charged with the liabilities of the general account. The policyholders bear all of the investment risk for these products
single premium	an insurance policy where the policyholder pays a single, one-off premium
surrender	many life insurance products permit the insured to withdraw a portion or all of the cash surrender value of the contract; future benefits are reduced accordingly
technical expenses	those non-life insurance or reinsurance operating expenses which are used to calculate the expense ratio
term life insurance	life insurance protection for a limited period which expires without maturity value if the insured survives the period specified in the policy
tied agent	adviser that sells insurance contracts exclusively for one specific insurance company, with his payment predominantly based on commissions
traditional life insurance	life insurance where claims paid consist of a predetermined amount, sometimes supplemented by a profit-sharing arrangement
underwriting	the process whereby an insurer or reinsurer reviews applications submitted for insurance or reinsurance coverage and determines whether it will provide all or part of the coverage being requested for an agreed premium
unit-linked insurance	life insurance where the value of benefits paid to the policyholder depends on the performance of investments funded by premiums paid by the policyholder
universal life insurance	a life insurance product under which premiums are generally flexible, the level of death benefits may be adjusted, and expenses and other charges are specifically disclosed to the policyholder and deducted from his account balance

18. FINANCIAL INFORMATION

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Consolidated balance sheet of NN Group

as at 31 December

amounts in millions of euros	2013	2012	2011
Assets			
Cash and cash equivalents 2	**7,155**	5,389	11,577
Financial assets at fair value through profit or loss: 3			
– trading assets	**736**	586	534
– investments for risk of policyholders	**39,589**	98,765	116,438
– non-trading derivatives	**3,126**	5,107	7,285
– designated as at fair value through profit or loss	**482**	2,000	2,616
Available-for-sale investments 4	**61,014**	119,305	133,604
Loans and advances to customers 5	**25,319**	25,823	32,928
Reinsurance contracts 17	**252**	5,290	5,870
Investments in associates 6	**1,028**	1,352	1,526
Real estate investments 7	**764**	805	954
Property and equipment 8	**164**	338	469
Intangible assets 9	**392**	1,018	1,972
Deferred acquisition costs 10	**1,353**	4,549	10,204
Assets held for sale 11	**630**	61,691	
Other assets 12	**3,754**	6,735	9,631
Total assets	**145,758**	338,753	335,608
Equity 13			
Shareholder’s equity (parent)	**14,227**	26,423	23,412
Minority interests	**68**	217	62
Total equity	**14,295**	26,640	23,474
Liabilities			
Subordinated loans 14	**2,892**	2,947	4,367
Debt securities in issue 15		1,910	3,436
Other borrowed funds 16	**4,817**	7,442	7,307
Insurance and investment contracts 17	**111,551**	229,950	278,833
Customer deposits and other funds on deposit 18	**5,769**		
Financial liabilities at fair value through profit or loss: 19			
– non-trading derivatives	**1,843**	3,258	4,404
Liabilities held for sale 11	**466**	55,655	
Other liabilities 20	**4,125**	10,951	13,787
Total liabilities	**131,463**	312,113	312,134
Total equity and liabilities	**145,758**	338,753	335,608

The amounts for 2011 and 2012 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page F9.

The comparison of the Consolidated balance sheets is impacted by the transfer of ING U.S. to ING Groep N.V., the classification to continuing operations of NN Group’s business in Japan (as of 2013) and the classification as held for sale of the insurance and investment management businesses in Asia (as of 2012) as disclosed in the section “Other significant changes in 2013” on page F11.

References relate to the notes starting on page F30. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of NN Group

for the year ended 31 December

amounts in millions of euros	2013	2013	2012	2012	2011	2011
Continuing operations						
Gross premium income 21		**9,530**		10,705		11,292
Investment income 22		**3,619**		3,739		3,483
Result on disposals of group companies 23		**–45**				–4
Gross commission income	**956**		924		1,337	
Commission expense	**–330**		–331		–700	
Commission income 24		**626**		593		637
Valuation results on non-trading derivatives 25		**–2,891**		–2,574		1,025
Foreign currency results and net trading income 26		**186**		539		–117
Share of result from associates 6		**97**		37		190
Other income 27		**39**		–22		110
Total income		**11,161**		13,017		16,616
Gross underwriting expenditure	**13,585**		15,867		13,444	
Investment result for risk of policyholders	**–4,930**		–5,517		–206	
Reinsurance recoveries	**–70**		–73		–81	
Underwriting expenditure 28		**8,585**		10,277		13,157
Intangible amortisation and other impairments 29		**11**		69		42
Staff expense 30		**1,178**		1,037		1,128
Interest expense 31		**591**		605		728
Other operating expense 32		**848**		1,274		1,093
Total expense		**11,213**		13,262		16,148
Result before tax from continuing operations		**–52**		–245		468
Taxation 39		**–50**		–113		15
Net result from continuing operations		**–2**		–132		453
Discontinued operations 33						
Net result from discontinued operations		**45**		839		–202
Net result from classification as discontinued operations		**–42**		–394		
Net result from disposal of discontinued operations		**17**		752		995
Total net result from discontinued operations		**20**		1,197		793
Net result from continuing and discontinued operations (before minority interests)		**18**		1,065		1,246

The amounts for 2012 and 2011 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page F9.

References relate to the notes starting on page F61. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of NN Group continued

for the year ended 31 December

amounts in millions of euros	**2013**	2012	2011
Net result from continuing and discontinued operations attributable to:			
Shareholder of the parent	**10**	1,038	1,226
Minority interests	**8**	27	20
	18	1,065	1,246
Net result from continuing operations attributable to:			
Shareholder of the parent	**–18**	–153	439
Minority interests	**16**	21	14
	–2	–132	453
Total net result from discontinued operations attributable to:			
Shareholder of the parent	**28**	1,191	787
Minority interests	**–8**	6	6
	20	1,197	793

	2013	2012	2011
Total amount of dividend paid (in millions of euros) 13	**882**	0	0

In 2013, the remaining interest in ING U.S., Inc. (“ING U.S.”) was transferred to ING Groep N.V. by way of dividend in kind. Reference is made to Note 53 “Other events” for more details on the transaction.

Consolidated statement of comprehensive income of NN Group

for the year ended 31 December

amounts in millions of euros	**2013**	2012	2011
Net result from continuing and discontinued operations	**18**	1,065	1,246
Items that will not be reclassified to the profit and loss account:			
Remeasurement of the net defined benefit asset/liability 38	**–42**	–910	430
Unrealised revaluations property in own use	**–1**	–13	2
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised revaluations available-for-sale investments and other	**–4,678**	5,084	1,997
Realised gains/losses transferred to the profit and loss account	**90**	–367	473
Changes in cash flow hedge reserve	**–832**	665	1,316
Transfer to insurance liabilities/DAC	**2,154**	–2,181	–2,004
Other revaluations		10	36
Exchange rate differences	**–744**	–370	240
Total comprehensive income	**–4,035**	2,983	3,736
Comprehensive income attributable to:			
Shareholder of the parent	**–3,940**	2,949	3,718
Minority interests	**–95**	34	18
	–4,035	2,983	3,736

The amounts for 2012 and 2011 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page F9.

Reference is made to Note 39 “Taxation” for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of cash flows of NN Group

for the year ended 31 December

amounts in millions of euros		**2013**	2012	2011
Result before tax [1]		**103**	1,044	1,254
Adjusted for:	– depreciation	**144**	171	191
	– deferred acquisition costs and value of business acquired	**1,289**	–484	248
	– increase in provisions for insurance and investment contracts	**–6,604**	–3,178	4,389
	– other	**1,275**	3,177	–2,362
Taxation paid		**–268**	–3	–206
Changes in:	– trading assets	**–146**	–70	87
	– non-trading derivatives	**–631**	430	1,142
	– other financial assets at fair value through profit or loss	**1,977**	–2,313	42
	– loans and advances to customers	**–192**	4,397	–1,268
	– other assets	**1,248**	2,049	944
	– customer deposits and other funds on deposits	**2,066**		
	– other financial liabilities at fair value through profit or loss	**–3,623**	–1,590	–280
	– other liabilities	**–4,885**	–2,907	–2,113
Net cash flow from operating activities		**–8,247**	723	2,068
Investments and advances:	– group companies 49	**–23**		
	– associates	**–48**	–6	–105
	– available-for-sale investments	**–46,964**	–72,358	–68,540
	– real estate investments	**–200**	–56	–23
	– property and equipment	**–30**	–60	–77
	– investments for risk of policyholders	**–47,102**	–67,986	–57,130
	– other investments	**–4,563**	–85	–77
Disposals and redemptions:	– group companies 49	**2,548**	1,332	2,736
	– associates	**323**	63	120
	– available-for-sale investments	**48,966**	63,978	63,616
	– real estate investments	**229**	71	35
	– property and equipment	**3**	18	15
	– investments for risk of policyholders	**54,979**	72,201	61,898
	– other investments	**8**	7	9
Net cash flow from investing activities		**8,126**	–2,881	2,477
Proceeds from issuance of subordinated loans				450
Repayments of subordinated loans			–1,381	–455
Proceeds from borrowed funds and debt securities		**12,791**	32,717	41,920
Repayments of borrowed funds and debt securities		**–13,854**	–34,069	–43,471
Capital injection		**1,330**		
Payments to acquire treasury shares			–17	–13
Sales of treasury shares		**10**	13	11
Proceeds of IPO ING U.S. 53		**1,062**		
Dividend paid 13		**–882**		
Net cash flow from financing activities		**457**	–2,737	–1,558
Net cash flow 35		**336**	–4,895	2,987
Cash and cash equivalents at beginning of year		**6,717**	11,577	8,646
Effect of exchange rate changes on cash and cash equivalents		**182**	35	–56
Cash and cash equivalents at end of year 2		**7,235**	6,717	11,577

[1] Includes result before tax from continuing operations of EUR –52 million (2012: EUR –245 million; 2011: EUR 468 million) and result before tax from discontinued operations of EUR 155 million (2012: EUR 1,289 million; 2011: EUR 786 million). Result after tax from discontinued operations is EUR 20 million (2012: EUR 1,197 million; 2011: EUR 793 million).

The amounts for 2012 and 2011 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page F9.

References relate to the notes starting on page F72. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of NN Group

amounts in millions of euros	Share capital (1)	Share premium	Reserves	Total share-holder's equity (parent)	Minority interest	Total equity
Balance as at 1 January 2011 (before change in accounting policy)	0	17,750	2,409	20,159	111	20,270
Effect of change in accounting policy (2)			–520	–520		–520
Balance as at 1 January 2011 (after change in accounting policy)	0	17,750	1,889	19,639	111	19,750
Remeasurement of the net defined benefit asset/liability			430	430		430
Unrealised revaluations property in own use			2	2		2
Unrealised revaluations available-for-sale investments and other			1,996	1,996	1	1,997
Realised gains/losses transferred to profit and loss account			473	473		473
Changes in cash flow hedge reserve			1,316	1,316		1,316
Transfer to insurance liabilities/DAC			–2,004	–2,004		–2,004
Other revaluations			36	36		36
Exchange rate difference			243	243	–3	240
Total amount recognised directly in equity (Other comprehensive income)	0	0	2,492	2,492	–2	2,490
Net result from continuing and discontinued operations			1,226	1,226	20	1,246
Total comprehensive income	0	0	3,718	3,718	18	3,736
Employee stock option and share plans			55	55		55
Changes in composition of the group and other changes					–43	–43
Dividend					–34	–34
Capital injection					10	10
Balance as at 31 December 2011	0	17,750	5,662	23,412	62	23,474
Remeasurement of the net defined benefit asset/liability			–910	–910		–910
Unrealised revaluations property in own use			–13	–13		–13
Unrealised revaluations available-for-sale investments and other			5,076	5,076	8	5,084
Realised gains/losses transferred to profit and loss account			–367	–367		–367
Changes in cash flow hedge reserve			665	665		665
Transfer to insurance liabilities/DAC			–2,181	–2,181		–2,181
Other revaluations			10	10		10
Exchange rate difference			–369	–369	–1	–370
Total amount recognised directly in equity (Other comprehensive income)	0	0	1,911	1,911	7	1,918
Net result from continuing and discontinued operations			1,038	1,038	27	1,065
Total comprehensive income	0	0	2,949	2,949	34	2,983
Employee stock option and share plans			62	62		62
Changes in composition of the group and other changes					127	127
Dividend					–6	–6
Balance as at 31 December 2012	0	17,750	8,673	26,423	217	26,640

(1) NN Group has an issued share capital of EUR 45,000. Reference is made to Note 13 “Equity”.

(2) The change in accounting policy for defined benefit plans is disclosed in the section “Changes in accounting policies in 2013” on page F9.

Consolidated statement of changes in equity of NN Group continued

amounts in millions of euros	Share capital (1)	Share premium	Reserves	Total share-holder's equity (parent)	Minority interest	Total equity
Balance as at 31 December 2012		**17,750**	**8,673**	**26,423**	**217**	**26,640**
Remeasurement of the net defined benefit asset/liability 18			**–42**	**–42**		**–42**
Unrealised revaluations property in own use			**–1**	**–1**		**–1**
Unrealised revaluations available-for-sale investments and other			**–4,672**	**–4,672**	**–6**	**–4,678**
Realised gains/losses transferred to profit and loss			**90**	**90**		**90**
Changes in cash flow hedge reserve			**–832**	**–832**		**–832**
Transfer to insurance liabilities/DAC			**2,154**	**2,154**		**2,154**
Exchange rate difference			**–647**	**–647**	**–97**	**–744**
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**–3,950**	**–3,950**	**–103**	**–4,053**
Net result from continuing and discontinued operations			**10**	**10**	**8**	**18**
Total comprehensive income	**0**	**0**	**–3,940**	**–3,940**	**–95**	**–4,035**
Capital contribution		**1,330**		**1,330**		**1,330**
Employee stock option and share plans			**37**	**37**	**6**	**43**
Changes in composition of the group and other changes		**–6,826**	**43**	**–6,783**	**–3,010**	**–9,793**
Impact of IPO ING U.S. 53			**–1,958**	**–1,958**	**2,954**	**996**
Dividend 13		**–649**	**–233**	**–882**	**–4**	**–886**
Balance as at 31 December 2013	**0**	**11,605**	**2,622**	**14,227**	**68**	**14,295**

(1) NN Group has an issued share capital of EUR 45,000. Reference is made to Note 13 “Equity”.

Notes to the Consolidated annual accounts of NN Group

amounts in millions of euros, unless stated otherwise

ESTABLISHMENT OF NN GROUP

Until recently, ING Verzekeringen N.V. (“ING Insurance”) was the holding company of the insurance and investment management activities of ING. As such, ING Insurance prepared Consolidated annual accounts under IFRS-EU that included ING Insurance and all its subsidiaries. ING Insurance was a wholly-owned subsidiary of ING Insurance Topholding N.V. (“ING Topholding”), a wholly-owned subsidiary of the ultimate parent ING Groep N.V. ING Topholding was a holding company with no other assets, liabilities and activities than its 100% holding in ING Insurance.

On 28 February 2014, before the finalisation of the 2013 Consolidated annual accounts, ING Insurance and ING Topholding legally merged. Through this merger, the legal entity ING Verzekeringen N.V. ceased to exist. The legal merger became effective on 1 March 2014 and on that date the merged entity was renamed NN Group N.V. (“NN Group”).

The merged entity NN Group N.V. is in substance a continuation of ING Insurance. As of 2013, NN Group prepares Consolidated annual accounts under IFRS-EU in which all assets and liabilities of ING Insurance and its subsidiaries are included at their existing carrying values. As a result, the financial position and results of NN Group are not significantly different from what these would have been for ING Insurance.

AUTHORISATION OF ANNUAL ACCOUNTS

The Consolidated annual accounts of NN Group N.V. (“NN Group”) for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Management Board NN Group on 17 March 2014. The Management Board NN Group may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these. NN Group N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of NN Group are described in “ING and NN Group at a glance” of the NN Group N.V. Annual Report 2013 on page 4 (1).

1 ACCOUNTING POLICIES

NN Group applies International Financial Reporting Standards as adopted by the European Union (“IFRS-EU”). In the annual accounts the term “IFRS-EU” is used to refer to these standards, including the decisions NN Group made with regard to the options available under IFRS-EU.

IFRS-EU provides a number of options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related NN Group accounting policy, are summarised as follows:

- Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts. NN Group operates in different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group’s businesses in the Netherlands, NN Group for example applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts;
- NN Group’s accounting policy for Real estate investments is fair value, with changes in the fair value reflected immediately in the Consolidated profit and loss account;
- NN Group’s accounting policy for Property for own use is fair value, with changes in the fair value reflected, after tax, in the revaluation reserve in equity (“Other comprehensive income”). A net negative revaluation on individual properties is reflected immediately in the Consolidated profit and loss account; and
- NN Group’s accounting policy for joint ventures is proportionate consolidation.

NN Group’s accounting policies under IFRS-EU and its decision on the options available are included in the section “Principles of valuation and determination of results” below. Except for the options included above, the principles in section “Principles of valuation and determination of results” are IFRS-EU and do not include other significant accounting policy choices made by ING. The accounting policies that are most significant to NN Group are included in section “Critical accounting policies”.

CHANGES IN ACCOUNTING POLICIES IN 2013

The following new and/or amended IFRS-EU standards were implemented by NN Group in 2013:

- Amendments to IAS 19 “Employee Benefits”;
- Amendments to IAS 1 “Presentation of Financial Statements”;
- Amendments to IFRS 7 “Financial instruments: Disclosures”; and
- IFRS 13 “Fair Value Measurement”.

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(1) In this Prospectus, the principal activities of NN Group are described in the section “Business”.

Amendments to IAS 19 "Employee Benefits"

The most significant change in the revised IAS 19 "Employee Benefits" relates to the accounting for defined benefit pension obligations and the corresponding plan assets. The amendments require immediate recognition in Other comprehensive income (i.e. in equity) of changes in the defined benefit obligation and in the fair value of plan assets due to actuarial gains and losses. The deferral of actuarial gains and losses through the "corridor approach", which was applied under the previous version of IAS 19 until the end of 2012, is no longer allowed. As a related consequence, deferred actuarial gains and losses are no longer released to the Consolidated profit and loss account upon curtailment. Furthermore, the amendments require the return on plan assets for the purpose of calculating the pension expense to be determined using a high-quality corporate bond rate, equal to the discount rate of the defined benefit obligation; until the end of December 2012 management's best estimate was applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 resulted in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013. As a result, Shareholder's equity decreased with EUR –0.9 billion (after tax) (EUR –1.2 billion before tax) at 1 January 2013. The recognition of actuarial gains and losses in equity will create volatility in Total equity going forward. The changes in IAS 19 are implemented retrospectively; as a result, comparative amounts for previous periods have been restated and are presented as if the new requirements were always applied.

The impact of the changes in IAS 19 for the year 2013 mainly relates to the recognition of the remeasurement of the Net defined benefit asset/liability in equity. As disclosed in Note 13 "Equity" the amount of the Net defined benefit asset/liability remeasurement reserve is EUR –1,042 million at 31 December 2013 (31 December 2012: EUR –1,000 million; 31 December 2011: EUR –90 million). Without the changes in IAS 19, this negative reserve would not have reduced equity.

The impact of changes in IAS 19 on previous annual reporting periods is as follows:

Impact on Shareholder's equity

	31 December 2012	31 December 2011	1 January 2011
Shareholder's equity (before change in accounting policy)	27,298	23,475	20,159
Change in Other assets – net defined benefit asset	–805	221	–451
Change in Other liabilities – net defined benefit liability	–417	–352	–278
Change in Liabilities held for sale	–4		
Change in net defined benefit asset/liability before tax	–1,226	–131	–729
Tax effect	351	68	209
Shareholder's equity (after change in accounting policy)	26,423	23,412	19,639

Impact on Net result

	2012	2011
Net result from continuing operations (before change in accounting policy)	–194	421
Impact on staff expenses – Pension and other staff-related benefit costs	92	25
Tax effect	–22	–7
	–124	439
Discontinued operations after tax	1,189	807
Net result from continuing and discontinued operations (after change in accounting policy)	1,065	1,246

Impact on Other comprehensive income

	2012	2011
Total amount recognised directly in equity (before change in accounting policy)	2,828	2,059
Remeasurement of the net defined benefit asset/liability	–1,234	581
Changes in the composition of the group and other changes	2	–533
Tax effect	322	–137
Total amount recognised directly in equity (after change in accounting policy)	1,918	1,970

Amendments to IAS 1 "Presentation of Financial Statements"

The amendments to IAS 1 "Presentation of Financial Statements" resulted in changes to the presentation in the Consolidated statement of other comprehensive income, including a split of Other comprehensive income into items that may be recognised in the profit and loss account in future periods and items that will never be recognised in the Consolidated profit and loss account. There was no impact on Shareholder's equity, Net result and/or Other comprehensive income.

Amendments to IFRS 7 “Financial instruments: Disclosures”
The amendments to IFRS 7 “Financial instruments: Disclosures” introduced additional disclosures on offsetting (netting) of financial instruments in the Consolidated balance sheet and on the potential effect of netting arrangements. There was no impact on Shareholder’s equity, Net result and/or Other comprehensive income. Reference is made to Note 46 “Offsetting financial assets and liabilities”.

IFRS 13 “Fair Value Measurement”
IFRS 13 “Fair Value Measurement” brings together in one standard all guidance on how to determine fair value. It does not change the scope of assets/liabilities that are measured at fair value. NN Group’s interpretation of fair value measurement is not significantly different from the guidance in IFRS 13. Therefore, the implementation of IFRS 13 “Fair Value Measurement” at 1 January 2013 did not have a significant impact on Shareholder’s equity, Net result and/or Other comprehensive income. In addition, IFRS 13 introduces an extended scope for the disclosure of the fair value by level of fair value hierarchy for non-financial assets and liabilities and financial instruments not measured at fair value. Reference is made to Note 40 “Fair value of assets and liabilities”.

OTHER SIGNIFICANT CHANGES IN 2013

The comparison of balance sheet items between 31 December 2013 and 31 December 2012 is impacted by the Initial Public Offering (“IPO”) of ING U.S., Inc. the U.S.-based retirement, investment and insurance business (“ING U.S.”),the transfer of ING U.S. to ING Groep N.V., the classification to continuing operations of ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING RE (“NN Group’s business in Japan”), the divestment of companies as disclosed in Note 49 “Companies and businesses acquired and divested” and by the held for sale classification as disclosed in Note 11 “Assets and liabilities held for sale” and Note 33 “Discontinued operations”.

Changes in assets and liabilities due to the transfer of ING U.S., the classification to continuing operations of NN Group’s business in Japan and as a result of the classification of other disposal groups as held for sale are included in the notes in the line “Changes in the composition of the group and other changes”.

ING U.S.

In May 2013, ING U.S. was successfully listed on the New York Stock Exchange (NYSE). As a result of the IPO, ING’s ownership interest in ING U.S. was reduced from 100% to 71.25%. At 30 September 2013, the remaining interest in ING U.S. was transferred to ING Groep N.V. by way of dividend in kind. As of the date of transfer, ING U.S. ceased to be consolidated; the results for the period until transfer are presented as discontinued operations.

Reference is made to Note 53 “Other events”.

NN GROUP’S BUSINESS IN JAPAN

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that a standalone divestment of ING Life Japan, including its Corporate Owned Life Insurance (COLI) and Closed Block VA businesses, is not feasible in a manner that would appropriately meet the demands of regulators and other stakeholders in ING Group and ING Life Japan. Therefore, ING Life Japan will be combined ING’s European insurance and investment management businesses in the base case IPO of NN Group in 2014. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re (“NN Group’s business in Japan”) are no longer classified as held for sale and discontinued operations. Reference is made to Note 53 “Other events”.

Based on the above events, changes were made to the segment reporting as disclosed in Note 36 “Segments”.

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

UPCOMING CHANGES AFTER 2013

The following new or revised standards and interpretations will become effective for NN Group from 1 January 2014, if and when endorsed by the EU:

- IFRS 10 “Consolidated Financial Statements”;
- IFRS 11 “Joint Arrangements” and amendments to IAS 28 “Investments in Associates and Joint Ventures”;
- IFRS 12 “Disclosure of Interests in Other Entities”;
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Amendments to IAS 32 “Presentation – Offsetting Financial Assets and Financial Liabilities”;
- Amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”;
- IFRIC 21 “Levies”; and
- Amendments to IAS 36 “Recoverable amount disclosures for non-financial assets”.

The significant upcoming changes in IFRS-EU after 2013 are explained below.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 "Consolidated Financial Statements" introduces amendments to the criteria for consolidation. Similar to the requirements that are applicable until the end of 2013, all entities controlled by NN Group will be included in the Consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The requirements of IFRS 10 are generally similar to the policies and interpretations that NN Group applied prior to the introduction of IFRS 10. Therefore the implementation of the standard as at 1 January 2014 will not have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and Joint Ventures"

IFRS 11 "Joint Arrangements" and the related amendments to IAS 28 "Investments in Associates and Joint Ventures" eliminate the proportionate consolidation method for joint ventures that was applied by NN Group. Under the new requirements, all joint ventures will be reported using the equity method of accounting (similar to the accounting that is already applied for Investments in associates). The implementation of IFRS 11 as at 1 January 2014 will not have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income. The impact of the application of IFRS 11 "Joint Arrangements" is included in the table below.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 "Disclosure of Interests in Other Entities" introduces extended disclosure requirements for subsidiaries, associates, joint ventures and structured entities. The implementation of IFRS 12 will not have an impact on Shareholder's equity, Net result and/or Other comprehensive income.

Summary of impact as at 1 January 2014

The impact of the above mentioned changes of IFRS requirements that are implemented as of 1 January 2014 is summarised as follows:

Upcoming changes in IFRS-EU in 2014

	IFRS 11 "Joint Arrange-ments"
Assets held for sale	–442
Assets – other	–1
Impact on Total assets	–443
Liabilities held for sale	–442
Liabilities – other	–1
Impact on Total liabilities	–443
Impact on Shareholder's equity	0

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. Further amendments are expected to be finalised in 2014. The current version of IFRS 9 does not include a mandatory effective date. An effective date will be added when all phases of the project are complete and a final version of IFRS 9 is issued. The mandatory effective date of IFRS 9 is expected to be 2018. IFRS 9 is also not yet endorsed by the EU. Implementation of IFRS 9, if and when finalised and endorsed by the EU, may have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

Accounting for GMDB in Japan Closed Block VA

NN Group applies fair value accounting to the reserves for Guaranteed Minimum Death Benefits (GMDB) of the Japan Closed Block VA from 1 January 2014. Reference is made to Note 55 "Subsequent events".

CRITICAL ACCOUNTING POLICIES

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

INSURANCE PROVISIONS, DEFERRED ACQUISITION COSTS (DAC) AND VALUE OF BUSINESS ACQUIRED (VOBA)

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

The use of different assumptions could have a significant effect on insurance provisions and underwriting expenditure. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

In addition, the adequacy of insurance provisions, net of DAC and VOBA, is evaluated regularly. The test involves comparing the established insurance provision with current best estimate assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions in this test could lead to a different outcome.

Insurance provisions also include the impact of minimum guarantees which are contained within certain variable annuity products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions about these factors could have a significant effect on insurance provisions and underwriting expenditure.

The process of defining methodologies and assumptions for insurance provisions, DAC and VOBA is governed by risk management of NN Group as described in the “Risk management” section.

Reference is made to the “Risk management” section for a sensitivity analysis of Net result to insurance, interest rate, equity, foreign currency and real estate risks. These sensitivities are based on changes in assumptions that management considers reasonably likely at the balance sheet date.

FAIR VALUE OF REAL ESTATE

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

Market conditions in recent years have led to a reduced level of real estate transactions. Consequently, the fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value. Transaction values were significantly impacted by low volumes of actual transactions. As a result comparable market transactions have been used less in valuing NN Group’s real estate investments by independent qualified valuers. More emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

Reference is made to Note 40 “Fair value of assets and liabilities” for more disclosure on fair value at balance sheet date of real estate investments.

The use of different assumptions and techniques could produce significantly different valuations. To illustrate the uncertainty of the real estate investments valuation, a sensitivity analysis on the changes in fair value of real estate is provided in the “Risk management” section.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

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

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the profit and loss account. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 40 “Fair value of assets and liabilities” and the “Risk management” section for the basis of the determination of the fair value of financial instruments and related sensitivities.

IMPAIRMENTS

Impairment evaluation is a complex process that inherently involves significant judgements and uncertainties that may have an impact on NN Group’s Consolidated annual accounts. Impairments are especially relevant in two areas: Available-for-sale debt and equity securities and Goodwill/Intangible assets.

All debt and equity securities (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. “Significant” and “prolonged” are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers. Upon impairment, the full difference between the (acquisition) cost and fair value is removed from equity and recognised in Net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed.

Impairments on other debt instruments (Loans and advances to customers) are part of the loan loss provision as described below.

Impairment reviews with respect to goodwill and intangible assets are performed at least annually, and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount.

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

EMPLOYEE BENEFITS

Group companies operate defined benefit retirement plans covering a significant number of NN Group's employees.

The net defined benefit asset/liability recognised in the balance sheet in respect of the defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

The determination of the defined benefit obligation is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates (in particular based on market yields on high quality corporate bonds), rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs and consumer price index and are updated on a quarterly basis.

The actuarial assumptions may differ significantly from the actual parameters due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the net defined benefit asset/liability and future pension costs. Reference is made to Note 38 “Pension and other post-employment benefits” for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

NN Group comprises NN Group N.V. and all its subsidiaries. The consolidated financial statements of NN Group comprise the accounts of NN Group N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 50 “Principal subsidiaries”.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether NN Group controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both NN Group's financial interests for own risk and its role as investment manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies and assume all risks and benefits on these investments.

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in Net result.

A subsidiary which NN Group has agreed to sell but is still legally owned by NN Group may still be controlled by NN Group at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as held for sale if certain conditions are met.

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

NN Group N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid–up capital, and reserves required by law. Additionally, certain group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

NN Group's interests in jointly controlled entities are accounted for using proportionate consolidation. NN Group proportionately consolidates its share of the joint ventures' individual income and expenses, assets and liabilities, and cash flows on a line-by-line basis with similar items in NN Group's financial statements. NN Group recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. NN Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by NN Group from the joint venture until it resells the assets to a third party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Disposal groups classified as held for sale or discontinued operations

Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to their fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognised through a reduction of the carrying value of any goodwill related to the disposal group or the carrying value of certain other non-current non-financial assets to the extent that the carrying value of those assets exceeds their fair value. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognised upon classification as held for sale, but is recognised as part of the result on disposal if and when a divestment transaction occurs.

Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

When a group of assets that is classified as held for sale or is sold also represents a major line of business or geographical area the disposal group classifies as discontinued operations. In the Consolidated profit and loss account, the income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of result after tax for both the current year and for comparative years.

USE OF ESTIMATES AND ASSUMPTIONS

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

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

SEGMENT REPORTING

A segment is a distinguishable component of NN Group, engaged in providing products or services, subject to risks and returns that are different from those of other segments. A geographical area is a distinguishable component of NN Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

ANALYSIS OF INSURANCE BUSINESS

Where amounts are analysed into "life" or "non-life", health and disability insurance business which is similar in nature to life insurance business is included in "life".

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of NN Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in euros, which is NN Group's functional and presentation currency.

Transactions and balances

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

Exchange rate differences on non-monetary items, measured at fair value through profit or loss are reported as part of the fair value gain or loss. Non-monetary items are translated at each date the fair value is determined. Exchange rate differences on non-monetary items measured at fair value through OCI are included in the revaluation reserve in equity.

Exchange rate differences in the profit and loss account are generally included in Net trading income. Reference is made to Note 26 “Foreign currency results and Net trading income”, which discloses the amounts included in the profit and loss account. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in Result on disposals of group companies. Reference is also made to Note 13 “Equity”, which discloses the amounts included in the profit and loss account.

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation, exchange rate differences arising from the translation of a monetary item that form part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to Shareholder’s equity. When a foreign operation is sold the corresponding exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. NN Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Reference is made to Note 40 “Fair value of assets and liabilities” for the basis of determination of the fair value of financial instruments.

RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Recognition of financial assets

All purchases and sales of financial assets classified as fair value through profit and loss (excluding investments for risk of policyholders) or available-for-sale that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at trade date, which is the date on which NN Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Group receives or delivers the asset.

Derecognition of financial assets

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

Financial liabilities

Debt securities in issue are recognised and derecognised at trade date.

Realised gains and losses on investments

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include: equity securities, debt securities, derivatives and other, and comprise the following sub-categories: trading assets, non-trading derivatives, financial assets designated at fair value through profit or loss by management, and investments for risk of policyholders.

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

Investments for risk of policyholders are investments against insurance liabilities for which all changes in the fair value of invested assets are offset by similar changes in insurance liabilities.

Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit or loss is recognised in Investment income in the profit and loss account using the effective interest method.

Dividend income from equity instruments classified as at fair value through profit or loss is generally recognised in Investment income in the profit and loss account when dividend has been declared. Investment result from investments for risk of policyholders is recognised in Investment result for risk of policyholders. For derivatives reference is made to the “Derivatives and hedge accounting” section. For all other financial assets classified as at fair value through profit or loss, changes in fair value are recognised in Net trading income.

Available-for-sale investments

Investments (including loans quoted in active markets) classified as available-for-sale are initially recognised at fair value plus transaction costs. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

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

Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as Investment income. For impairments of available-for-sale financial assets reference is made to the section “Impairments of other financial assets”. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include Loans and advances to customers and Other assets and are reflected in these balance sheet line items. Interest income from loans and receivables is recognised in Investment income in the profit and loss account using the effective interest method.

Credit risk management classification

Credit risk management disclosures are provided in the “Risk management” section. The relationship between credit risk classifications in that section and the Consolidated balance sheet classifications above is explained below:

- Lending risk arises when NN Group grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the balance sheet classification Loans and advances to customers and off balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with NN Group’s investment portfolio and mainly relates to the balance sheet classification Available-for-sale investments;
- Money market risk arises when NN Group places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the balance sheet classifications Cash and cash equivalents and Loans and advances to customers;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and NN Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the balance sheet classification Financial assets at fair value through profit or loss (trading assets and non-trading derivatives); and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until NN Group has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the balance sheet as Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and Available-for-sale investments.

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 47 “Contingent liabilities and commitments” for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which NN Group manages credit risk and determines credit risk exposures for that purpose is explained in the “Risk management” section.

DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. The fair value is obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Some credit protection contracts that take the legal form of a derivative, such as certain credit default swaps, are accounted for as financial guarantees.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

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

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

Fair value hedges

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

Cash flow hedges

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

Net investment hedges

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

Non-trading derivatives that do not qualify for hedge accounting

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

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)

NN Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. NN Group has granted concessions, for economic or legal reasons relating to the borrower’s financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by NN Group’s credit risk systems.

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

NN Group does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

NN Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If NN Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (“Loan loss provision”) and the amount of the loss is recognised in the profit and loss account under “Investment income”. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a “loss confirmation period” to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by NN Group’s credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in NN Group’s loan loss provision. Although the loss confirmation periods are inherently uncertain, NN Group applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by the NN Group’s account managers. Generally, the frequency increases in relation to the size of the borrower. Loss confirmation periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

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

When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the profit and loss account.

IMPAIRMENT OF OTHER FINANCIAL ASSETS

At each balance sheet date NN Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. “Significant” and “prolonged” are interpreted on a case-by-case basis for specific equity securities; generally 25% and 6 months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in Net result – is removed from equity and recognised in the profit and loss account. Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

INVESTMENTS IN ASSOCIATES

Associates are all entities over which NN Group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

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

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting.

NN Group's investment in associates (net of any accumulated impairment loss) includes goodwill identified on acquisition. NN Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When NN Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, NN Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between NN Group and its associates are eliminated to the extent of NN Group's interest in the associates. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by NN Group. The reporting dates of all significant associates are consistent with the reporting date of NN Group.

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

REAL ESTATE INVESTMENTS

Real estate investments are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sale proceeds and carrying value is recognised in the profit and loss account.

The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions and disposals made by NN Group are monitored as part of the validation procedures to test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value is based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

NN Group owns a real estate portfolio, diversified by region, by investment segment (Office, Retail and Residential) and by investment type. The valuation of different investments is performed using different discount rates ("yields"), dependent on specific characteristics of each property, including occupancy, quality of rent payments and specific local market circumstances. For NN Group's main direct properties in its main locations, the yields applied in the 2013 year-end valuation generally are in the range of 5% to 8%.

The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment.

Subsequent expenditures are recognised as part of the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to NN Group and the cost of an item can be measured reliably. All other repairs and maintenance costs are recognised in the profit and loss account.

For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

PROPERTY AND EQUIPMENT

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in Shareholder's equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

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

Property obtained from foreclosures

Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets – Property development and obtained from foreclosures.

Property under development

Property developed and under development for which NN Group has the intention to sell the property after its completion is included in Other assets – Property development and obtained from foreclosures.

Property developed and under development for which NN Group has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and NN Group's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on sale date of the property). Impairment is recognised if the estimated selling price in the ordinary course of business, less applicable variable selling expenses is lower than carrying value.

Property under development for which NN Group has the intention to sell the property under development after its completion and where there is a specifically negotiated contract, is valued using the percentage of completion method (pro rata profit recognition). The stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in the profit and loss account) if NN Group has the intention to recognise the property under development after completion as real estate investments.

Equipment

Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over their estimated useful lives, which are generally as follows: for data processing equipment two to five years, and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Disposals

The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account under Other income.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined at the weighted average cost of capital of the project.

LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date.

NN Group as the lessee

The leases entered into by NN Group are primarily operating leases. The total payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisitions and goodwill

NN Group's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS's, taking into account the initial accounting period below. Changes in the fair value of the contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, NN Group's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date NN Group obtains control) and the resulting gain or loss, if any, is recognised in the profit and loss account. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the profit and loss account, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as Other operating expenses.

Until 2009, before IFRS 3 "Business Combinations" was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition-related costs were considered to be part of the total consideration.

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

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in Shareholder's equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level at which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the reporting units (including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Adjustments to the fair value at the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the profit and loss account.

Computer software

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

Value of business acquired (VOBA)

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

Other intangible assets

Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

DEFERRED ACQUISITION COSTS

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

For traditional life insurance contracts, certain types of flexible life insurance contracts and non-life contracts, DAC is amortised over the premium payment period in proportion to the premium revenue recognised.

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised. The estimates and the assumptions are reassessed at the end of each reporting period. Higher/lower expected profits (e.g. reflecting stock market performance or a change in the level of assets under management) may cause a lower/higher balance of DAC due to the catch-up of amortisation in previous and future years. This process is known as DAC unlocking. The impact of the DAC unlocking is recognised in the profit and loss account of the period in which the unlocking occurs.

DAC is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the provision for life insurance liabilities and VOBA. The test for recoverability is described in the section “Insurance, Investment and Reinsurance Contracts”.

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

TAXATION

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

Deferred income tax

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: Other borrowed funds, debt securities in issue and subordinated loans. Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If NN Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in the profit and loss account.

Financial liabilities at fair value through profit or loss

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

INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

Provisions for liabilities under insurance contracts 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 Group decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group’s businesses in the Netherlands, NN Group for example applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts.

Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU.

In addition, for certain specific products or components thereof, NN Group applies the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan.

Insurance contracts

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

Provision for life insurance

The Provision for life insurance is generally calculated on the basis of a prudent prospective actuarial method, taking into account the conditions for current insurance contracts. Specific methodologies may differ between business units as they may reflect local regulatory requirements and local practices for specific product features in the local markets.

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

Insurance provisions for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders. Certain variable annuity products contain minimum guarantees on the amounts payable upon death and/or maturity. The insurance provisions include the impact of these minimum guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

The as yet unamortised interest rate rebates on periodic and single premium contracts are deducted from the Provision for life insurance. Interest rate rebates granted during the year are capitalised and amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

Provision for unearned premiums and unexpired insurance risks

The provision is calculated in proportion to the unexpired periods of risk. For insurance policies covering a risk increasing during the term of the policy at premium rates independent of age, this risk is taken into account when determining the provision. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision

The Claims provision is calculated either on a case-by-case basis or by approximation on the basis of experience. Provisions have also been made for claims incurred but not reported (IBNR) and for future claims handling expenses. The adequacy of the Claims provision is evaluated each year using standard actuarial techniques. In addition, “IBNR” reserves are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to NN Group.

Deferred profit sharing

For insurance contracts with discretionary participation features a deferred profit sharing amount is recognised for the full amount of the unrealised revaluation on allocated investments. Upon realisation, the profit sharing on unrealised revaluations is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing amount is reduced by the actual allocation of profit sharing to individual policyholders.

The change in the deferred profit sharing amount on unrealised revaluation (net of deferred tax) is recognised in equity in the revaluation reserve.

Provisions for life insurance for risk of policyholders

For investment contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the related investments.

Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contracts are accounted for in the same way as the original contracts for which the reinsurance was concluded. If the reinsurers are unable to meet their obligations, NN Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectable.

Adequacy test
The adequacy of the provision for life insurance, net of unamortised interest rate rebates, DAC and VOBA (the net insurance liabilities), is evaluated regularly by each business unit for the business originated in that business unit. The test considers current estimates of all contractual and related cash flows, and future developments. It includes investment income on the same basis as it is included in the profit and loss account.

If, for any business unit, it is determined using a best estimate (50%) confidence level, that a shortfall exists, and there are no offsetting amounts within other business units in the same segment (Business Line), the shortfall is recognised immediately in the profit and loss account.

If, for any business unit, the net insurance liabilities are not adequate using a prudent (90%) confidence level, but there are offsetting amounts within other business units, then the business unit is allowed to take measures to strengthen the net insurance liabilities over a period no longer than the expected life of the policies. To the extent that there are no offsetting amounts within other business units, any shortfall at the 90% confidence level is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be adequate at above the 90% confidence level, no reduction in the net insurance liabilities is recognised.

The adequacy test continues to be applied to businesses that are presented as discontinued operations but have not been divested yet; the relevant businesses continue to be evaluated as part of the adequacy test of the business line in which these were included before classification as discontinued operations.

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

OTHER LIABILITIES

Employee benefits – pension obligations

Defined benefit plans

The net defined benefit asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the expected return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholder’s equity and/or Net result, include mainly:
- expected return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the profit and loss account; and
- remeasurements which are recognised in Other comprehensive income (equity).

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholder’s equity and/or Net result, include mainly:
- service cost which are recognised as staff costs in the profit and loss account;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the profit and loss account; and
- remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in Other comprehensive income are not recycled to the profit and loss account. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the profit and loss account when the curtailment or settlement occurs.

The recognition of a net defined benefit asset in the consolidated balance sheet is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans

For defined contribution plans, NN Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. NN Group has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some NN Group companies provide post-employment healthcare and other benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Other provisions

A provision involves a present obligation arising from past events, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Reorganisation provisions include employee termination benefits when NN Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

INCOME RECOGNITION

Gross premium income

Premiums from life insurance policies are recognised as income when due from the policyholder. For non-life insurance policies, gross premium income is recognised on a pro-rata basis over the term of the related policy coverage. Receipts under investment contracts are not recognised as gross premium income.

Interest

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

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the “clean fair value” are included in Net trading income and Valuation results on non-trading derivatives.

Fees and commissions

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

EXPENSE RECOGNITION

Expenses are recognised in the profit and loss account as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Notes to the Consolidated annual accounts of NN Group continued

Share-based payments

Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. Rights granted will remain valid until the expiry date, even if the share-based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the profit and loss account.

FIDUCIARY ACTIVITIES

NN Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of NN Group.

STATEMENT OF CASH FLOWS

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

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

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

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is accounted separately for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

BALANCE SHEET
ASSETS
2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2013	2012	2011
Cash and bank balances	**1,997**	2,980	3,230
Short term deposits	**5,158**	2,409	8,347
	7,155	5,389	11,577

Cash and cash equivalents classified as Assets held for sale amounted EUR 80 million (2012: EUR 1,328 million; 2011: nil) resulting in EUR 7,235 million (2012: EUR 6,717 million; 2011: EUR 11,577 million) reported as Cash and cash equivalents at the end of the year in the Consolidated statement of Cash flows.

The majority of the short-term deposits reported, are held with ING Bank. Reference is made to Note 52 “Related parties” for an overview of all transactions with ING Bank.

As at 31 December 2013, NN Group held EUR 354 million (2012: nil; 2011: nil) at central banks.

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss

	2013	2012	2011
Trading assets	**736**	586	534
Investments for risk of policyholders	**39,589**	98,765	116,438
Non-trading derivatives	**3,126**	5,107	7,285
Designated as at fair value through profit or loss	**482**	2,000	2,616
	43,933	106,458	126,873

In 2013, the change in Financial assets at fair value through profit and loss includes EUR –78,101 million as a result of the transfer of ING U.S. and EUR 16,357 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

In 2012, the change in “Investments for risk of policyholders” was mainly the result of the income for the year as well as the classification as held for sale of the insurance and investment management business in Asia. Reference is made to Note 11 “Assets and liabilities held for sale” and Note 28 “Underwriting expenditure”.

Trading assets by type

	2013	2012	2011
Equity securities	**724**	576	490
Debt securities	**12**	10	44
	736	586	534

Trading assets includes EUR 723 million (2012: EUR 546 million; 2011: EUR 475 million), private equity investments at fair value through profit or loss.

Investments for risk of policyholders by type

	2013	2012	2011
Equity securities	**36,919**	89,994	105,580
Debt securities	**1,821**	6,940	9,612
Loans or receivables	**849**	1,831	1,246
	39,589	98,765	116,438

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

Notes to the Consolidated annual accounts of NN Group continued

Non-trading derivatives by type

	2013	2012	2011
Derivatives used in:			
– fair value hedges	**1**		
– cash flow hedges	**1,433**	2,450	2,572
– hedges of net investments in foreign operations		2	5
Other non-trading derivatives	**1,692**	2,655	4,708
	3,126	5,107	7,285

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

Designated as at fair value through profit or loss by type

	2013	2012	2011
Equity securities	**427**		15
Debt securities	**43**	1,096	1,159
Other	**12**	904	1,442
	482	2,000	2,616

Other includes investments in private equity funds, hedge funds, other non-traditional investment vehicles and limited partnerships.

4 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments by type

	2013	2012	2011
Equity securities	**5,620**	5,073	6,839
Debt securities	**55,394**	114,232	126,765
	61,014	119,305	133,604

Equity securities in 2013 include EUR 1,832 million shares in NN Group managed investment finds and EUR 1,565 million shares in third party managed investment funds.

Exposure to debt securities

NN Group’s exposure to debt securities is included in the following balance sheet lines:

Debt securities

	2013	2012	2011
Available-for-sale investments	**55,394**	114,232	126,765
Loans and advances to customers	**6,479**	6,323	6,681
Available-for-sale investments and Assets at amortised cost	**61,873**	120,555	133,446
Trading assets	**12**	10	44
Investments for risk of policyholders	**1,821**	6,940	9,612
Designated as at fair value through profit or loss	**43**	1,096	1,159
Financial assets at fair value through profit or loss	**1,876**	8,046	10,815
	63,749	128,601	144,261

NN Group's total exposure to debt securities included in Available-for-sale investments and assets at amortised cost of EUR 61,873 million (2012: EUR 120,555 million; 2011: EUR 133,446 million) is specified as follows by type of exposure:

Debt securities by type and balance sheet line – Available-for-sale investments and Assets at amortised cost

	Available-for-sale investments			Loans and advances to customers			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Government bonds	**43,307**	49,420	54,732				**43,307**	49,420	54,732
Covered bonds	**721**	996	1,118				**721**	996	1,118
Corporate bonds	**6,436**	43,072	45,260				**6,436**	43,072	45,260
Financial institution bonds	**4,303**	9,037	11,700				**4,303**	9,037	11,700
Bond portfolio (excluding ABS)	**54,767**	102,525	112,810	**0**	0	0	**54,767**	102,525	112,810
US agency RMBS	**143**	4,216	5,228				**143**	4,216	5,228
US prime RMBS	**1**	1,025	1,380				**1**	1,025	1,380
US Alt-A RMBS	**5**	284	295				**5**	284	295
US subprime RMBS		733	752				**0**	733	752
NON-US RMBS	**210**	215	513	**3,410**	3,745	4,515	**3,620**	3,960	5,028
CDO/CLO	**39**	130	183	**197**	290	505	**236**	420	688
Other ABS	**218**	1,440	1,459	**2,531**	1,997	1,346	**2,749**	3,437	2,805
CMBS	**11**	3,664	4,145	**341**	291	315	**352**	3,955	4,460
ABS portfolio	**627**	11,707	13,955	**6,479**	6,323	6,681	**7,106**	18,030	20,636
	55,394	114,232	126,765	**6,479**	6,323	6,681	**61,873**	120,555	133,446

Exposure to certain Asset backed securities

The table below shows certain ABS (US Subprime RMBS, Alt-A RMBS, CMBS and CDO/CLOs). It includes exposures in all relevant balance sheet lines, including not only loans and advances and available-for-sale investments as disclosed above, but also financial assets designated as at fair value through profit or loss.

Exposures, revaluations and losses on certain ABS bonds

	31 December 2013		**Change in 2013**			31 December 2012	
	Balance sheet value (1)	**Before tax revalu-ation reserve**	**Changes through equity (before tax)**	**Changes through profit and loss (before tax)**	**Other changes**	Balance sheet value (1)	Before tax revalu-ation reserve
US Subprime RMBS			**32**		**–765**	733	–32
US Alt-A RMBS	**5**		**–49**		**–230**	284	49
CDO/CLOs	**236**	**–2**	**5**		**–189**	420	–7
CMBS	**352**	**–3**	**–41**		**–3,649**	4,042	38
Total ABS	**593**	**–5**	**–53**	**0**	**–4,833**	5,479	48

(1) For assets classified as loans and receivables: amortised cost; otherwise: fair value.

In 2013, "Other changes" mainly relate to the transfer of ING U.S. Reference is made to Note 53 "Other events".

Exposures, revaluations and losses on certain ABS bonds

	31 December 2012		Change in 2012			31 December 2011	
	Balance sheet value (1)	Before tax revalu-ation reserve	Changes through equity (before tax)	Changes through profit and loss (before tax)	Other changes	Balance sheet value (1)	Before tax revalu-ation reserve
US Subprime RMBS	733	–32	158		–177	752	–190
US Alt-A RMBS	284	49	31	–2	–40	295	18
CDO/CLOs	420	–7	16		–284	688	–23
CMBS	4,042	38	445	2	–956	4,551	–407
Total ABS	5,479	48	650	0	–1,457	6,286	–602

(1) For assets classified as loans and receivables: amortised cost; otherwise: fair value.

Notes to the Consolidated annual accounts of NN Group continued

In 2012, “Other changes” mainly relate to the de-risking program of NN Group and includes sales and redemptions of certain ABS bonds.

Approximately 90% of the exposure in the ABS portfolio is externally rated AAA, AA or A.

Reference is made to Note 40 “Fair value of assets and liabilities” for disclosure by fair value hierarchy and Note 22 “Investment income” for impairments on available-for-sale debt securities.

Exposure to Government bonds and Unsecured Financial institutions’ bonds of Greece, Italy, Ireland, Portugal and Spain

Since 2010 concerns arose regarding the creditworthiness of certain European countries. As a result of these concerns the value of sovereign debt decreased and exposures in those countries are being monitored closely. With regard to the sovereign debt crisis, NN Group’s main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility (“EFSF”) or receive support from the European Central Bank (“ECB”) via government bond purchases in the secondary market. For these countries, NN Group’s main focus is on exposure to Government bonds and Unsecured Financial institutions’ bonds.

At 31 December 2013, NN Group’s balance sheet value of “Government bonds” and “Unsecured Financial institutions” bonds to Greece, Italy, Ireland, Portugal and Spain and the related revaluation reserve in equity (before tax) was as follows:

Greece, Italy, Ireland, Portugal and Spain – Government bonds and Unsecured Financial institutions’ bonds (1)

2013	Balance sheet value	Before tax revaluation reserve	Amortised cost value
Greece			
Government bonds available-for-sale	105	66	39
Italy			
Government bonds available-for-sale	1,391	85	1,306
Financial institutions available-for-sale	55	1	54
Ireland			
Government bonds available-for-sale	59	6	53
Portugal			
Government bonds available-for-sale	4	–1	5
Financial institutions available-for-sale	27	1	26
Spain			
Government bonds available-for-sale	1,012	2	1,010
Financial institutions available-for-sale	79	3	76
Total	2,732	163	2,569

(1) Exposures are included based on the country of residence.

The revaluation reserve on debt securities in 2013 includes EUR 3,280 million (before tax) related to Government bonds. This amount comprises EUR 158 million revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain.

At 31 December 2012, NN Group's balance sheet value of "Government bonds" and "Unsecured Financial institutions" bonds to Greece, Italy, Ireland, Portugal and Spain and the related revaluation reserve in equity (before tax) was as follows:

Greece, Italy, Ireland, Portugal and Spain – Government bonds and Unsecured Financial institutions' bonds [1]

2012	Balance sheet value	Before tax revaluation reserve	Before tax impairments	Amortised cost value
Greece				
Government bonds available-for-sale	76	40		36
Italy				
Government bonds available-for-sale	1,377	32		1,345
Financial institutions available-for-sale	51	–1		52
Ireland				
Government bonds available-for-sale	55	1		54
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	7	–3		10
Financial institutions available-for-sale	40	2		38
Spain				
Government bonds available-for-sale	872	–97		969
Financial institutions available-for-sale	96	–2	–11	109
Total	2,589	–28	–11	2,628

[1] Exposures are included based on the country of residence.

The revaluation reserve on debt securities in 2012 included EUR 6,298 million (before tax) related to Government bonds. This amount comprises EUR 27 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain, which is more than offset by EUR 6,325 million positive revaluation reserves for Government bonds from other countries.

At 31 December 2011, NN Group's balance sheet value of "Government bonds" and "Unsecured Financial institutions" bonds to Greece, Italy, Ireland, Portugal and Spain and the related before tax revaluation reserve in equity was as follows:

Greece, Italy, Ireland, Portugal and Spain – Government bonds and Unsecured Financial institutions' bonds [1]

2011	Balance sheet value	Before tax revaluation reserve	Before tax impairments [2]	Amortised cost value
Greece				
Government bonds available-for-sale	104		–352	456
Italy				
Government bonds available-for-sale	1,207	–219		1,426
Financial institutions available-for-sale	83	–21		104
Ireland				
Government bonds available-for-sale	43	–10		53
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	95	–88		183
Financial institutions available-for-sale	47	–17		64
Spain				
Government bonds available-for-sale	866	–118		984
Financial institutions available-for-sale	163	–30		193
Total	2,623	–503	–352	3,478

[1] Exposures are included based on the country of residence.

[2] Before tax impairments relate to bonds held at 31 December 2011. In addition, EUR 38 million and EUR 189 million impairments were recognised in 2011 on Greek government bonds and Irish unsecured Financial institutions' bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds and Irish unsecured Financial institutions' bonds in 2011 is therefore EUR 390 million and EUR 189 million as explained below.

Notes to the Consolidated annual accounts of NN Group continued

The revaluation reserve on debt securities in 2011 included EUR 3,868 million (before tax) related to Government bonds. This amount comprised EUR 435 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain, which was more than offset by EUR 4,303 million positive revaluation reserves for Government bonds from other countries.

On 21 July 2011, a Private Sector Involvement ("PSI") to support Greece was announced. This initiative involved a voluntary exchange of existing Greek Government bonds together with a Buyback facility. Due to this initiative, NN Group impaired all its Greek Government bonds to market value at 31 December 2011, bringing total impairments on these bonds to EUR 390 million.

In 2012, the agreement under the PSI to exchange Greek Government bonds into new instruments was executed. Under this exchange NN Group received new listed Greek Government bonds (for a notional amount of 31.5% of the notional of the exchanged bonds, maturities between 2023 and 2042), listed European Financial Stability Facility ("EFSF") notes (for a notional amount of 15% of the notional of the exchanged bonds, maturities of one to two years) and listed short-term EFSF notes (maturity of 6 months, in discharge of all unpaid interest accrued on the exchanged bonds). These new securities were recognised as available-for-sale instruments. Furthermore, NN Group received listed GDP-linked securities issued by Greece (notional equal to notional of the new Greek Government bonds, maturity 2042). The exchange was executed on 12 March 2012. The exchanged bonds were derecognised and the new instruments were recognised at fair value on the exchange date. The exchange resulted in a loss of EUR 7 million in 2012, being the difference between amortised cost (net of cumulative impairments) of the exchanged bonds and fair value of the new instruments at the date of exchange. This result was included in "Investment income".

In 2011, NN Group recognised a total impairment of EUR 189 million on subordinated debt from Irish banks.

Reference is made to Note 40 "Fair value of assets and liabilities" for disclosure by fair value hierarchy and Note 22 "Investment income" for impairments on available-for-sale debt securities.

Further information on NN Group's risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain is provided in the "Risk management" section.

Changes in available-for-sale investments

	Equity securities			Debt securities			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**5,073**	6,839	7,013	**114,232**	126,765	116,334	**119,305**	133,604	123,347
Additions	**908**	1,474	1,391	**45,005**	70,884	67,149	**45,913**	72,358	68,540
Amortisation				**–581**	–304	–395	**–581**	–304	–395
Transfers and reclassifications			904				**0**	0	904
Changes in the composition of the group and other changes	**409**	–1,335	–153	**–47,407**	–26,805	–645	**–46,998**	–28,140	–798
Changes in unrealised revaluations	**258**	475	–382	**–6,205**	6,931	4,309	**–5,947**	7,406	3,927
Impairments	**–174**	–159	–188	**–10**	–48	–741	**–184**	–207	–929
Reversal of impairments				**2**	8	5	**2**	8	5
Disposals and redemptions	**–818**	–2,224	–1,765	**–47,278**	–61,753	–61,851	**–48,096**	–63,977	–63,616
Exchange rate differences	**–36**	3	19	**–2,364**	–1,446	2,600	**–2,400**	–1,443	2,619
Closing balance	**5,620**	5,073	6,839	**55,394**	114,232	126,765	**61,014**	119,305	133,604

In 2013, Changes in the composition of the group and other changes includes EUR –56,467 million as a result of the transfer of ING U.S. and EUR 9,674 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

In 2012, Changes in the composition of the group and other changes related mainly to the classification of the insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 "Assets and liabilities held for sale".

Reference is made to Note 22 "Investment income" for details on impairments.

Transfers and reclassifications of available-for-sale investments

	Equity securities			Debt securities			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
To/from investments in associates			904						904

In 2011, Transfers and reclassifications related to the reclassification from associates to available-for-sale equity securities as a result of the fact that significant influence ceased to exist for certain real estate funds due to the sale of ING Real Estate Investment Management.

Reclassifications to Loans and advances to customers (2009)

Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS-EU as of the third quarter of 2008. In the second quarter of 2009 NN Group reclassified certain financial assets from Available-for-sale investments to Loans and advances to customers. NN Group identified assets, eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table below provides information on this reclassification made in second quarter of 2009. Information is provided for this reclassification (see column) as at the date of reclassification and as at the end of the subsequent reporting periods (see rows). This information is disclosed under IFRS-EU as long as the reclassified assets continue to be recognised in the balance sheet.

Reclassifications to Loans and advances to customers

	Q2 2009
As per reclassification date	
Fair value	6,135
Range of effective interest rates (weighted average)	1.4%- 24.8%
Expected recoverable cash flows	7,118
Unrealised fair value losses in shareholder’s equity (before tax)	–896
Recognised fair value gains (losses) in shareholder’s equity (before tax) between the beginning of the year in which the reclassification too place and the reclassification date	173
Recognised fair value gains (losses) in shareholder’s equity (before tax) in the year prior to reclassification	–971
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil
Recognised impairment (before tax) in the year prior to reclassification	nil

Impact on the financial years after reclassification

	2013	2012	2011	2010	2009
Carrying value as at 31 December	**1,098**	1,694	3,057	4,465	5,550
Fair value as at 31 December	**1,108**	1,667	2,883	4,594	5,871
Unrealised fair value losses in shareholder’s equity (before tax) as at 31 December	**111**	–186	–307	–491	–734
Effect on shareholder’s equity (before tax) if reclassification had not been made	**10**	–27	–174	129	321
Effect on result (before tax) if reclassification had not been made	**nil**	nil	nil	nil	nil
Effect on result (before tax) after the reclassification until 31 December(mainly interest income)	**n/a**	n/a	n/a	n/a	121
Effect on result (before tax) for the year (interest income and sales results)	**–10**	–47	90	89	n/a
Recognised impairments (before tax)	**nil**	nil	nil	nil	nil
Recognised provision for credit losses (before tax)	**nil**	nil	nil	nil	nil

In 2012, the decrease in the carrying value of the reclassified Loans and advances to customers, compared to 2011 was mainly due to disposals.

Available-for-sale equity securities

	2013	2012	2011
Listed	**2,688**	2,297	3,807
Unlisted	**2,932**	2,776	3,032
	5,620	5,073	6,839

Borrowed debt securities are not recognised in the balance sheet and amounted to nil as at 31 December 2013 (2012: nil; 2011: EUR 466 million).

NN Group did not have Available-for-sale investments that did not produce any income for the year ended 31 December 2013, 2012 and 2011.

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by type

	Netherlands			International			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Policy loans	**33**	38	44	**146**	1,704	3,308	**179**	1,742	3,352
Loans secured by mortgages	**15,365**	6,376	6,450	**9**	7,327	7,692	**15,374**	13,703	14,142
Unsecured loans	**2,457**	2,070	2,143	**70**	1,231	5,135	**2,527**	3,301	7,278
Asset backed securities	**6,479**	6,323	6,681				**6,479**	6,323	6,681
Other	**835**	338	355	**14**	527	1,244	**849**	865	1,599
	25,169	15,145	15,673	**239**	10,789	17,379	**25,408**	25,934	33,052
Loan loss provisions	**–83**	–68	–80	**–6**	–43	–44	**–89**	–111	–124
	25,086	15,077	15,593	**233**	10,746	17,335	**25,319**	25,823	32,928

Changes in loan loss provisions

	2013	2012	2011
Opening balance	**111**	124	117
Changes in the composition of the group and other changes	**–33**	–4	–2
Write–offs	**–31**	–39	–24
Recoveries	**1**		2
Increase in loan loss provisions	**42**	29	33
Exchange rate differences	**–1**	1	–2
Closing balance	**89**	111	124

In 2013, Changes in the composition of the group and other changes includes EUR 5 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events". Furthermore Changes in the composition of the group and other changes relates to the sale of ING's mortgage business in Mexico. Reference is made to Note 49 "Companies and businesses acquired and divested".

Loans and advances to customers increased by EUR 8.0 billion due to the transfer of mortgages from ING Bank to NN Group. Reference is made to Note 49 "Companies and businesses acquired and divested".

6 INVESTMENTS IN ASSOCIATES

Investments in associates

2013	**Interest held (%)**	**Fair value of listed investments**	**Balance sheet value**	**Total assets**	**Total liabilities**	**Total income**	**Total expenses**
Sul América S.A.	**21**	**332**	**186**	**4,656**	**3,787**	**2,752**	**2,692**
CBRE Lionbrook Property Partnership LP	**29**		**146**	**567**	**55**	**79**	**28**
CBRE Retail Property Fund Iberica LP	**29**		**118**	**1,322**	**902**		**67**
CBRE Property Fund Central Europe LP	**25**		**100**	**851**	**450**	**45**	**39**
CBRE Retail Property Fund France Belgium C.V.	**15**		**77**	**1,336**	**822**	**71**	**78**
CBRE French Residential Fund C.V.	**42**		**76**	**240**	**58**	**12**	**10**
CBRE Property Fund Central and Eastern Europe	**21**		**51**	**688**	**439**	**47**	**55**
Other investments in associates			**274**				
			1,028				

Investments in associates other than Sul América S.A., are mainly real estate investment funds or vehicles, operating predominantly in Europe.

Other investments in associates represents a large number of associates with an individual balance sheet of less than EUR 50 million.

Notes to the Consolidated annual accounts of NN Group continued

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

No accumulated impairments have been recognised in 2013, 2012 and 2011.

The values presented in the table above could differ from the values presented in the individual annual accounts of the associates, due to the fact that the individual values have been brought in line with NN Group's accounting principles.

In general the reporting dates of all significant associates are consistent with the reporting date of NN Group. However the reporting dates of certain associates can differ from the reporting date of NN Group, but is no more than three months.

Where the listed fair value is lower than the balance sheet value, an impairment review and an evaluation of the going concern basis has been performed.

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

Investments in associates

2012	Interest held (%)	Fair value of listed investments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul América S.A.	36	674	366	5,037	4,048	4,285	3,969
CBRE Retail Property Fund Iberica LP	29		129	1,423	964	–22	75
CBRE Lionbrook Property Partnership LP	20		102	577	77	31	23
CBRE Property Fund Central Europe LP	25		97	907	519	66	30
CBRE French Residential Fund C.V.	42		76	253	71	11	8
CBRE Retail Property Fund France Belgium C.V.	15		76	1,388	882	123	78
CBRE Nordic Property Fund FGR	14		55	1,057	674	19	68
Other investments in associates			451				
			1,352				

Investments in associates

2011	Interest held (%)	Fair value of listed investments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul América S.A.	36	641	394	5,353	4,292	3,941	3,662
CBRE Retail Property Fund Iberica LP	29		147	1,666	1,146	96	65
CBRE Lionbrook Property Partnership LP	20		102	604	92	50	17
CBRE Property Fund Central Europe LP	25		90	897	536	87	4
CBRE French Residential Fund C.V.	42		78	249	65	24	8
The Capital (London) Fund	20		77	387	3	14	3
CBRE Retail Property Fund France Belgium C.V.	15		73	1,374	889	117	57
CBRE Nordic Property Fund FGR	14		60	1,079	662	92	67
CBRE Property Fund Central and Eastern Europe	21		51	747	509	122	57
Other investments in associates			454				
			1,526				

Changes in investments in associates

	2013	2012	2011
Opening balance	**1,352**	1,526	2,428
Additions	**48**	23	118
Changes in the composition of the group and other changes	**–88**	–46	–14
Transfers to and from Available-for-sale Investments			–904
Revaluations	**20**	–30	–17
Share of result	**97**	37	194
Dividends received	**–36**	–56	–126
Disposals	**–335**	–75	–131
Exchange rate differences	**–30**	–27	–22
Closing balance	**1,028**	1,352	1,526

In 2013, Changes in the composition of the group and other changes includes EUR –64 million as a result of the transfer of ING U.S. and EUR –17 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

In 2013, Share of results includes EUR 128 million (2012: EUR 80 million; 2011: EUR 92 million) relating to Sul América S.A. and the remainder to individually not significant associates.

In 2013, the 36.5% interest in Sul América S.A. was reduced to 21.3% through two separate transactions, included in Disposals. In the International Finance Corporation transaction, a share of interest of approximately 7.9% in Sul América S.A was sold for a total consideration of approximately EUR 140 million. Under the terms of the Larragoiti transaction, a share of interest in Sul América S.A. of approximately 7% was sold to the Larragoiti family, the remaining indirect stake for tradable units was swapped, and the existing shareholder's agreement unwound. A net gain of EUR 64 million is recognised in the "Result on disposal of Group companies" in the Consolidated profit and loss account on these transactions.

On 7 January 2014, the sale to Swiss Re Group of 37.7 million units in Sul América S.A. was completed. The transaction further reduced the interest in the Brazilian insurance holding to approximately 10%. A total cash consideration of EUR 176 million was received. The transaction resulted in a net gain of EUR 56 million which represents the difference between the carrying value and the fair value for both the 11.3% interest in scope of the transaction with Swiss Re and the retained 10% interest. The net gain will be recognised in the first quarter of 2014. In 2014, the remaining interest was transferred to ING Group by way of dividend in kind .Together with a dividend paid to ING Group for the proceeds of the 11% divestment, this resulted in a dividend of EUR 315 million in 2014.

In 2013, Exchange rate differences includes EUR –42 million (2012: EUR –42 million; 2011: EUR –32 million) relating to Sul América S.A. and the remainder to individually not significant associates.

In 2011, Transfers to and from Investments relates to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management.

7 REAL ESTATE INVESTMENTS

Changes in real estate investments

	2013	2012	2011
Opening balance	**805**	954	1,063
Additions	**200**	56	23
Changes in the composition of the group and other changes	**–6**	–87	–93
Transfers to and from Other assets		–2	
Fair value gains/(losses)	**–6**	–48	2
Disposals	**–229**	–71	–35
Exchange rate differences		3	–6
Closing balance	**764**	805	954

In 2013, Changes in the composition of the group and other changes includes EUR –6 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2013 is EUR 63 million (2012: EUR 69 million; 2011: EUR 65 million). No contingent rent was recognised in the Consolidated profit and loss account.

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments that generated rental income for the year ended 31 December 2013 is EUR 13 million (2012: EUR 14 million; 2011: EUR 17 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on Real estate investments that did not generate rental income for the year ended 31 December 2013 is nil (2012: EUR 3 million; 2011: EUR 1 million).

Real estate investments by year of most recent appraisal by independent qualified valuers

In percentages	**2013**	2012	2011
Most recent appraisal in current year	**100**	100	100

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

Real estate exposure

	2013	2012	2011
Real estate investments	**764**	805	954
Investments in associates	**807**	869	956
Other assets – property development and obtained from foreclosures	**3**	72	72
Property and equipment – property in own use	**100**	220	292
Investments – available-for-sale	**1,358**	1,412	1,511
	3,032	3,378	3,785

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 4.8 billion (2012: EUR 5.4 billion; 2011: EUR 5.9 billion). Reference is made to the "Risk management" section.

8 PROPERTY AND EQUIPMENT

Property and equipment by type

	2013	2012	2011
Property in own use	**100**	220	292
Equipment	**64**	118	177
	164	338	469

Changes in property in own use

	2013	2012	2011
Opening balance	**220**	292	313
Additions	**5**		3
Changes in the composition of the group and other changes	**–105**	–25	–16
Transfers to and from other assets		1	
Depreciation	**–2**	–3	–4
Revaluations	**–15**	–33	–6
Impairments	**–1**		
Disposals	**–1**	–11	–2
Exchange rate differences	**–1**	–1	4
Closing balance	**100**	220	292
Gross carrying amount as at 31 December	**133**	255	327
Accumulated depreciation as at 31 December	**–29**	–32	–32
Accumulated impairments as at 31 December	**–4**	–3	–3
Net carrying value as at 31 December	**100**	220	292
Revaluation surplus			
Opening balance	**27**	44	43
Revaluation in year	**–2**	–16	1
Released in year	**–16**	–1	
Closing balance	**9**	27	44

In 2013, Changes in the composition of the group and other changes includes EUR –104 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

The cost or the purchase price amounted to EUR 124 million (2012: EUR 228 million; 2011: EUR 283 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 91 million (2012: EUR 193 million; 2011: EUR 248 million) had property in own use been valued at cost instead of fair value.

Property in own use by year of most recent appraisal by independent qualified valuers

In percentages	**2013**	2012	2011
Most recent appraisal in current year	**76**	84	45
Most recent appraisal one year ago	**21**		16
Most recent appraisal two years ago	**1**	15	
Most recent appraisal three years ago			39
Most recent appraisal four years ago	**2**	1	
	100	100	100

Changes in equipment

	Data processing equipment			Fixtures and fittings and other equipment			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**51**	65	67	**67**	112	137	**118**	177	204
Additions	**16**	38	38	**9**	22	36	**25**	60	74
Changes in the composition of the group and other changes	**–13**	–14	–10	**–8**	–30	–12	**–21**	–44	–22
Disposals	**–2**	–2	–1		–5	–12	**–2**	–7	–13
Depreciation	**–26**	–36	–29	**–27**	–31	–36	**–53**	–67	–65
Impairments					–1	–1		–1	–1
Exchange rate differences	**–1**			**–2**			**–3**		
Closing balance	**25**	51	65	**39**	67	112	**64**	118	177
Gross carrying amount as at 31 December	**85**	198	256	**177**	265	394	**262**	463	650
Accumulated depreciation as at 31 December	**–60**	–147	–191	**–138**	–198	–282	**–198**	–345	–473
Net carrying value as at 31 December	**25**	51	65	**39**	67	112	**64**	118	177

9 INTANGIBLE ASSETS

Changes in intangible assets

2013	**Value of business acquired**	**Goodwill**	**Software**	**Other**	**Total**
Opening balance	**513**	**277**	**108**	**120**	**1,018**
Additions			**43**		**43**
Capitalised expenses	**50**		**18**		**68**
Amortisation and unlocking	**–25**		**–55**	**–13**	**–93**
Impairments			**–2**		**–2**
Effect of unrealised revaluations in equity	**308**				**308**
Changes in the composition of the group and other changes	**–819**		**–26**	**–72**	**–917**
Exchange rate differences	**–7**	**–13**	**–2**	**–3**	**–25**
Disposals			**–8**		**–8**
Closing balance	**20**	**264**	**76**	**32**	**392**
Gross carrying amount as at 31 December	**41**	**385**	**649**	**118**	**1,193**
Accumulated amortisation as at 31 December	**–21**		**–532**	**–40**	**–593**
Accumulated impairments as at 31 December		**–121**	**–41**	**–46**	**–208**
Net carrying value as at 31 December	**20**	**264**	**76**	**32**	**392**

In 2013, Changes in the composition of the group and other changes includes EUR –909 million as a result of the transfer of ING U.S. and EUR 4 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Amortisation of software and other intangible assets is included in the profit and loss account in “Other operating expenses” and “Intangible amortisation and other impairments”. Amortisation of VOBA is included in Underwriting expenditure.

Notes to the Consolidated annual accounts of NN Group continued

Changes in intangible assets

2012	Value of business acquired	Goodwill	Software	Other	Total
Opening balance	871	786	135	180	1,972
Additions			82		82
Capitalised expenses	83		3		86
Amortisation and unlocking	–207		–60	–30	–297
Impairments		–56	–2		–58
Effect of unrealised revaluations in equity	–140				–140
Changes in the composition of the group and other changes	–89	–469	–44	–30	–632
Exchange rate differences	–5	16	1		12
Disposals			–7		–7
Closing balance	513	277	108	120	1,018
Gross carrying amount as at 31 December	1,977	1,019	783	286	4,065
Accumulated amortisation as at 31 December	–1,464		–646	–120	–2,230
Accumulated impairments as at 31 December		–742	–29	–46	–817
Net carrying value as at 31 December	513	277	108	120	1,018

Changes in intangible assets

2011	Value of business acquired	Goodwill	Software	Other	Total
Opening balance	1,320	1,425	166	345	3,256
Additions		8	73	1	82
Capitalised expenses	81		2		83
Amortisation and unlocking	–244		–59	–48	–351
Impairments			–34		–34
Effect of unrealised revaluations in equity	–250				–250
Changes in the composition of the group and other changes	–43	–575	–2	–108	–728
Exchange rate differences	7	–72	–2	–10	–77
Disposals			–9		–9
Closing balance	871	786	135	180	1,972
Gross carrying amount as at 31 December	2,244	1,471	818	369	4,902
Accumulated amortisation as at 31 December	–1,373		–646	–143	–2,162
Accumulated impairments as at 31 December		–685	–37	–46	–768
Net carrying value as at 31 December	871	786	135	180	1,972

Goodwill

Changes in Goodwill

2012 – Impairment

In 2012, a goodwill impairment of EUR 56 million was recognised relating to the reporting unit Netherlands-Life (formerly part of Insurance Benelux). In the impairment test, the IFRS-EU carrying value (including goodwill) was compared with a valuation based on the surplus in the market consistent balance sheet and the market value of new business. These are commonly used metrics in the European insurance industry. During 2012, the carrying value of the reporting unit increased, mainly as a result of declining interest rates being reflected in the fair value of assets but with no corresponding increase in the IFRS-EU carrying value of insurance liabilities. As the market value surplus (MVS) of the reporting unit did not increase similarly, the margin of MVS over IFRS-EUR carrying value, which supported the goodwill, became negative and, as a result, goodwill was fully impaired. This charge was included in the Consolidated profit and loss account in the line “Intangible amortisation and other impairments”. Goodwill is recognised in the Corporate Line and, therefore, this charge was included in the segment reporting in Other.

2012 – Changes in composition of the group and other changes

In 2012, “Changes in composition of the group and other changes” represents the classification of goodwill to “Assets held for sale”. This included all goodwill that relates to businesses that were classified as held for sale. For 2012, the amount was EUR 469 million and related to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million). As businesses to which these goodwill amounts relate to were classified as held for sale, the related goodwill was no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. Reference is made to Note 11 “Assets and liabilities held for sale”.

2011 – Changes in composition of the group and other changes

In 2011, “Changes in composition of the group and other changes” related mainly to the disposal of the Latin American operations.

Allocation of Goodwill to reporting units

After the above changes, the remaining goodwill is allocated to goodwill reporting units as follows:

Goodwill allocation to reporting units

	2013	2012	2011
Netherlands Life			56
Insurance Europe	**101**	114	112
Investment Management (IM)	**163**	163	382
Other			236
Total Insurance	**264**	277	786

Goodwill impairment testing

Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the so called “reporting units” as set out above. The changes in reportable segments as disclosed in Note 36 “Segments” resulted in the above reporting units but did not impact the outcome of the impairment test. Goodwill is tested for impairment by comparing the carrying value of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is allocated is determined separately for each relevant reporting unit based on Price to Earnings, Price to Book, and Price to Assets under management ratios. The main assumptions in this valuation are the multiples for Price to Earnings, Price to Book and Price to Assets under management; these are developed internally but are either derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU. Where available the test includes the use of market prices for listed business units.

If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

Such additional analyses were performed for the goodwill that was concluded to be impaired as set out above. For other reporting units, the goodwill allocated to these reporting units was fully supported in the first step.

Notes to the Consolidated annual accounts of NN Group continued

10 DEFERRED ACQUISITION COSTS

Changes in deferred acquisition costs

	Life insurance			Non-life insurance			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**4,513**	10,165	10,457	**36**	39	42	**4,549**	10,204	10,499
Capitalised	**616**	1,659	1,575	**8**	15	12	**624**	1,674	1,587
Amortisation and unlocking	**–1,885**	–1,051	–1,689	**–7**	–15	–13	**–1,892**	–1,066	–1,702
Effect of unrealised revaluations in equity	**660**	–251	–526				**660**	–251	–526
Changes in the composition of the group and other changes	**–2,094**	–5,765	44		–3	–2	**–2,094**	–5,768	42
Exchange rate differences	**–494**	–244	304				**–494**	–244	304
Closing balance	**1,316**	4,513	10,165	**37**	36	39	**1,353**	4,549	10,204

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2013 is 6.0% gross and is 4.3% net of investment management fees (2012: 8.1% gross and 7.3% net of investment management fees; 2011: 8.1% gross and 7.4% net of investment management fees). Percentages are based on the portfolios from continuing operations for the respective years.

In 2013, Changes in the composition of the group and other changes includes EUR –4,493 million as a result of the transfer of ING U.S. and EUR 2,409 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

The separate reporting of the Japan Closed Block VA business line triggered a write-off of all deferred acquisition costs (DAC) related to the Japan Closed Block VA business of EUR 1,405 million partly compensated by a release of the Life insurance provision related to unearned revenues of EUR 867 million. The write-off is included in Amortisation and unlocking for the year 2013. Reference is made to Note 53 "Other events".

In 2012, Changes in the composition of the group and other changes related mainly to the classification of the insurance and investment management businesses in Asia as held for sale. Reference is made to Note 11 "Assets and liabilities held for sale".

In 2011, Amortisation and unlocking includes EUR 488 million related to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. This effect has been included as part of Net result from discontinued operations in the Consolidated profit and loss account.

11 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale includes disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed.

As at 31 December 2013 Assets and liabilities held for sale relates to the remaining insurance and investment management businesses in Asia ("Asia") excluding NN Group's business in Japan.

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group's European insurance and investment management businesses in the base case IPO of NN Group in 2014. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re ("NN Group's business in Japan") are no longer classified as held for sale as at 31 December 2013. Reference is made to Note 53 "Other events".

As at 31 December 2012 Assets and liabilities held for sale related to insurance and investment management businesses in Asia ("Asia") including NN Group's business in Japan.

There were no Assets and liabilities classified as held for sale as at 31 December 2011.

During 2013, the divestments of the insurance businesses in Hong Kong, Macau and Thailand, the investment management business in Malaysia and Thailand and the joint ventures in South Korea and India, closed. During 2012, the divestment of the insurance business in Malaysia closed. As a result these businesses are no longer consolidated.

Furthermore, some divestments were agreed that are expected to close or closed in 2014, including ING-BOB Life and the Taiwanese investment management businesses; these remain to be classified as held for sale as at 31 December 2013. Reference is made to Note 49 "Companies and businesses acquired and divested".

Assets held for sale

	2013	2012
Cash and cash equivalents	**80**	1,328
Financial assets at fair value through profit or loss	**16**	26,688
Available-for-sale investments	**297**	24,805
Loans and advances to customers	**156**	2,084
Reinsurance contracts		98
Investments in associates		37
Property and equipment	**3**	33
Intangible assets		176
Deferred acquisition costs	**27**	5,124
Other assets	**51**	1,318
	630	61,691

Liabilities held for sale

	2013	2012
Insurance and investments contracts	**418**	51,198
Financial liabilities at fair value through profit or loss		2,073
Other liabilities	**48**	2,384
	466	55,655

Included in Shareholder’s equity is cumulative other comprehensive income of EUR 5 million (2012: EUR 1,585 million; 2011: nil) related to Assets and liabilities held for sale.

Goodwill

At 31 December 2013, there was no goodwill presented under Assets held for sale (2012: EUR 469 million; 2011: nil). In 2012, EUR 469 million goodwill was reclassified to Assets held for sale. This related to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million).

For businesses classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. In 2012, goodwill of EUR 180 million related to Investment Management Korea, EUR 200 million related to ING Life Korea and EUR 15 million related to ING Vysya Life Insurance was written off, as the related businesses were expected to be sold below carrying value. In 2013, goodwill of EUR 42 million related to Investment Management Taiwan was written off. The developments in the sales process of Investment Management Taiwan during 2013 (resulting in a sale in January 2014) indicated that the expected sales proceeds were no longer above the carrying value. The related charges were included in the Consolidated profit and loss account in Net result from classification as discontinued operations.

Fair value measurement

The fair value hierarchy of assets and liabilities measured at fair value, that are presented as held for sale is included below. The fair value hierarchy consists of three levels, depending upon whether fair value were determined based on unadjusted quoted prices in an active market (Level 1), valuation techniques supported by observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Reference is made to Note 40 “Fair value of assets and liabilities” for more details on the methods applied in determining the fair value.

Methods applied in determining the fair value of financial assets and liabilities – Held for sale

2013	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	**14**			**14**
Investments for risk of policyholders	**2**			**2**
Available-for-sale investments	**296**	**1**		**297**
	312	**1**	**0**	**313**

Methods applied in determining the fair value of financial assets and liabilities – Held for sale

2012	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	18			18
Investments for risk of policyholders	22,452		116	22,568
Non-trading derivatives		1,447		1,447
Financial assets designated as at fair value through profit or loss		2,640	15	2,655
Available-for-sale investments	16,180	8,386	239	24,805
	38,650	12,473	370	51,493
Liabilities				
Non-trading derivatives	287	1,786		2,073
Investment contracts (for contracts carried at fair value)	95			95
	382	1,786	0	2,168

12 OTHER ASSETS

Other assets by type

	2013	2012	2011
Reinsurance and insurance receivables	**642**	1,763	1,971
Deferred tax assets	**51**	76	186
Property development and obtained from foreclosures	**3**	72	72
Income tax receivable	**137**	44	82
Accrued interest and rents	**1,741**	2,448	2,999
Other accrued assets	**274**	1,040	1,670
Net defined benefit asset	**383**	670	1,472
Other	**523**	622	1,179
	3,754	6,735	9,631

The change in amounts reported in Other assets is mainly due to EUR –2,495 million as a result of the transfer of ING U.S. and EUR 1,251 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Disclosures in respect of deferred tax assets are provided in Note 39 “Taxation” and disclosures in respect of Net defined benefit assets are provided in Note 38 “Pension and other post-employment benefits”.

Accrued interest and rents includes EUR 1,272 million (2012: EUR 1,948 million; 2011: EUR 2,216 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

Reinsurance and insurance receivables

	2013	2012	2011
Receivables on account of direct insurance from:			
– policyholders	**500**	1,083	1,238
– intermediaries	**51**	50	67
Reinsurance receivables	**91**	630	666
	642	1,763	1,971

The allowance for uncollectable reinsurance and insurance receivables amounts to EUR 53 million as at 31 December 2013 (2012: EUR 50 million; 2011: EUR 66 million). The allowance is deducted from this receivable.

EQUITY

13 EQUITY

Total equity

	2013	2012	2011
Share capital			
Share premium	**11,605**	17,750	17,750
Revaluation reserve	**3,949**	8,333	5,060
Currency translation reserve	**–252**	–331	131
Net defined benefit asset/liability	**–1,042**	–1,000	–90
Other reserves	**–33**	1,671	561
Shareholder’s equity (parent)	**14,227**	26,423	23,412
Minority interests	**68**	217	62
Total equity	**14,295**	26,640	23,474

The Revaluation reserve, Share of associates reserve (included in Other reserves) and Currency translation reserve cannot be freely distributed.

Reference is made to Note 38 “Pension and other post-employment benefits” for information on the amounts recognised directly in equity (Other comprehensive income) related to the net defined benefit asset/liability remeasurement.

Share capital

	Ordinary shares (par value EUR 1.00)					
	Number x 1,000			Amount		
	2013	2012	2011	**2013**	2012	2011
Authorised share capital	**225**	225	225			
Unissued share capital	**180**	180	180			
Issued share capital	**45**	45	45	**0**	0	0

NN Group has an issued share capital of EUR 45,000.

Ordinary shares

All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Management Board NN Group. The par value of ordinary shares is EUR 1.00.

Dividend restrictions

NN Group N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company’s own funds over the sum of the paid–up capital, and reserves required by law. Additionally, certain group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Changes in Share premium

	2013
Opening balance	**17,750**
Capital contribution	**1,330**
Transfer of ING U.S.	**–6,826**
Dividend	**–649**
Closing balance	**11,605**

Notes to the Consolidated annual accounts of NN Group continued

Changes in revaluation reserve

2013	**Property revalu-ation reserve**	**Available-for-sale reserve**	**Cash flow hedge reserve**	**Total**
Opening balance	**18**	**4,768**	**3,548**	**8,334**
Changes in the composition of the group and other changes	**–8**	**–419**	**12**	**–415**
Impact of IPO of ING U.S.	**–3**	**–359**	**–2**	**–364**
Unrealised revaluations	**–1**	**–4,804**		**–4,805**
Realised gains/losses transferred to profit and loss		**–123**		**–123**
Change in cash flow hedge reserve			**–832**	**–832**
Transfer to insurance liabilities/DAC		**2,154**		**2,154**
Closing balance	**6**	**1,217**	**2,726**	**3,949**

Changes in the composition of the group and other changes relates to the transfer of ING U.S. Reference is made to Note 53 “Other events”.

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 17 “Insurance and investment contracts, reinsurance contracts”.

Changes in revaluation reserve

2012	Property revalu-ation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	31	2,146	2,883	5,060
Unrealised revaluations	–13	5,102		5,089
Realised gains/losses transferred to profit and loss		–299		–299
Change in cash flow hedge reserve			665	665
Transfer to insurance liabilities/DAC		–2,181		–2,181
Closing balance	18	4,768	3,548	8,334

Changes in revaluation reserve

2011	Property revalu-ation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	29	1,749	1,567	3,345
Unrealised revaluations	2	2,084		2,086
Realised gains/losses transferred to profit and loss		317		317
Change in cash flow hedge reserve			1,316	1,316
Transfer to insurance liabilities/DAC		–2,004		–2,004
Closing balance	31	2,146	2,883	5,060

Changes in currency translation reserve

	2013	2012	2011
Opening balance	**–331**	131	–178
Changes in the composition of the group and other changes	**381**		
Unrealised revaluations	**132**	–25	–90
Realised gains/losses transferred to profit and loss	**213**	–68	156
Exchange rate differences	**–647**	–369	243
Closing balance	**–252**	–331	131

Changes in the composition of the group and other changes relates to the transfer of ING U.S. Reference is made to Note 53 “Other events”.

The unrealised revaluations relate to changes in the value of hedging instruments that are designated as net investment hedges.

Changes in other reserves

2013	Retained earnings	Share of associates reserve	Total
Opening balance	1,331	340	1,671
Result for the year	10		10
Transfer to share of associates reserve	–118	118	0
Changes in the composition of the group and other changes	76		76
Impact of IPO of ING U.S.	–1,594		–1,594
Dividend	–233		–233
Employee stock options and share plans	37		37
Closing balance	–491	458	–33

Changes in the composition of the group and other changes relates to the transfer of ING U.S. Reference is made to Note 53 “Other events”.

Changes in other reserves

2012	Retained earnings	Share of associates reserve	Total
Opening balance	385	176	561
Result for the year	1,038		1,038
Unrealised revaluations	10		10
Transfer to share of associates reserve	–164	164	0
Employee stock options and share plans	62		62
Closing balance	1,331	340	1,671

Changes in other reserves

2011	Retained earnings	Share of associates reserve	Total
Opening balance	–897	140	–757
Result for the year	1,226		1,226
Unrealised revaluations	37		37
Transfer to share of associates reserve	–36	36	0
Employee stock options and share plans	55		55
Closing balance	385	176	561

Dividend

In connection with the divestments of ING Life Korea and the 7.9% share of interest in Sul América, dividend declared and paid was EUR 882 million in 2013, of which EUR 649 million was charged to Share premium and EUR 233 million to Retained earnings.

Furthermore, in 2013 ING U.S. was transferred to ING Group by way of dividend in kind of EUR 6.826 million, which was charged to Share premium in full. Reference is made to Note 53 “Other events”.

Reference is made to Note 6 “Investments in associates” for details on dividend declared for the year 2014 in relation to the divestment of Sul América.

LIABILITIES
14 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount	Balance sheet value		
					2013	2012	2011
8.000%	2011	Perpetual	EUR	450	**450**	450	450
Variable	2008	Perpetual	EUR	813	**813**	834	850
Variable	2007	Perpetual	EUR	740	**740**	758	772
4.176%	2005	Perpetual	EUR	169	**176**	181	313
Variable	2005	Perpetual	EUR	148	**148**	152	154
Variable	2005	Perpetual	EUR	74	**74**	76	77
6.375%	2002	7 May 2027	EUR	476	**491**	496	501
Variable	2001	21 June 2021	EUR	1,250			1,250
					2,892	2,947	4,367

These above presented subordinated bonds have been issued to raise hybrid capital. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes. EUR 2,401 million (2012: EUR 2,451 million; 2011: EUR 2,616 million) has been issued to ING Group.

Due to the transfer of ING U.S., all USD denominated subordinated loans have been converted into Euro denominated loans. Reference is made to Note 53 “Other Events”.

The decrease in “Subordinated loans” in the year 2012 reflects the redemption of the 2001, Variable interest rate, EUR 1,250 million hybrid security in December 2012.

On 12 December 2011, ING announced the launch of three separate exchange offers in Europe and tender offers in the United States of America, on a total of seven series of outstanding subordinated securities of ING entities with a total nominal value of approximately EUR 5.8 billion. Of this amount, EUR 1.0 billion related to securities originally issued by ING Verzekeringen N.V. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011. The participation for these bonds was 52% and resulted in a total gain of EUR 95 million (EUR 71 million after tax) including related hedge results and transaction costs. This gain was recognised in Other income in 2011.

15 DEBT SECURITIES IN ISSUE

Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on interest rate levels, such as certificates of deposit and accepted bills originally issued by ING Verzekeringen N.V., except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit or loss. NN Group does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities

	2013	2012	2011
Fixed rate debt securities			
Within 1 year		530	849
More than 1 year but less than 2 years			1,114
More than 5 years		1,110	473
Total fixed rate debt securities	**0**	1,640	2,436
Floating rate debt securities			
Within 1 year		270	
More than 5 years			1,000
Total floating rate debt securities	**0**	270	1,000
Total debt securities	**0**	1,910	3,436

Mainly as a result of the transfer of ING U.S., NN Group does not have debt securities in issue as at 31 December 2013.

On 8 March 2012, ING launched three separate exchange offers and consent solicitations on a total of three series of senior debt securities originally issued by ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. Holders had the possibility to exchange the original securities into new securities issued by ING Group and / or consent to a modification of existing terms. On average 64% of the holders accepted the offer to exchange into new securities issued by ING Group. The total nominal amount of the new securities issued by ING Group in exchange for the existing securities originally issued by ING Verzekeringen N.V. was EUR 1,654 million. Approximately 6% of the holders, representing EUR 151 million, accepted a modification of the existing terms of the securities. The transactions were completed on 30 March 2012. A charge of EUR 39 million (EUR 30 million after tax) was recognised in 2012. The settlement date of the exchange offers and consent solicitations was on 4 April 2012.

ING U.S., Inc. announced on 16 July 2012 that it completed a private debt offering of USD 850 million principal amount of its 5.5% Senior Notes due in 2022. In 2013, ING US is transferred to ING Group. Reference is made to Note 53 “Other events”.

16 OTHER BORROWED FUNDS

Other borrowed funds by remaining term

2013	**2014**	**2015**	**2016**	**2017**	**2018**	**Years after 2018**	**Total**
Loans contracted	**1,009**	**20**	**15**	**12**		**490**	**1,546**
Loans from credit institutions	**2,732**		**60**			**479**	**3,271**
	3,741	**20**	**75**	**12**	**0**	**969**	**4,817**

Other borrowed funds by remaining term

2012	2013	2014	2015	2016	2017	Years after 2017	Total
Loans contracted	1,740	815			4	663	3,222
Loans from credit institutions	3,306			60		854	4,220
	5,046	815	0	60	4	1,517	7,442

Other borrowed funds by remaining term

2011	2012	2013	2014	2015	2016	Years after 2016	Total
Loans contracted	884		76			617	1,577
Loans from credit institutions	5,088					642	5,730
	5,972	0	76	0	0	1,259	7,307

17 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The Provision for insurance and investment contracts, net of reinsurance (i.e. the provision for NN Group's own account) is presented gross in the balance sheet as "Insurance and investment contracts". The related reinsurance is presented as "Reinsurance contracts" under Assets in the balance sheet.

Insurance and investment contracts, reinsurance contracts

	Provision net of reinsurance			Reinsurance contracts			Insurance and investment contracts		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Provision for non-participating life policy liabilities	**17,352**	62,797	88,492	**34**	5,065	5,534	**17,386**	67,862	94,026
Provision for participating life policy liabilities	**46,208**	47,801	52,753	**88**	87	102	**46,296**	47,888	52,855
Provision for (deferred) profit sharing and rebates	**3,799**	7,236	5,623		3	2	**3,799**	7,239	5,625
Life insurance provisions excluding provisions for risk of policyholders	**67,359**	117,834	146,868	**122**	5,155	5,638	**67,481**	122,989	152,506
Provision for life insurance for risk of policyholders	**38,038**	90,754	109,487	**49**	49	136	**38,087**	90,803	109,623
Life insurance provisions	**105,397**	208,588	256,355	**171**	5,204	5,774	**105,568**	213,792	262,129
Provision for unearned premiums and unexpired risks	**266**	265	297	**3**	2	4	**269**	267	301
Reported claims provision	**2,643**	2,621	2,620	**77**	82	89	**2,720**	2,703	2,709
Claims incurred but not reported (IBNR)	**595**	558	493	**1**	2	3	**596**	560	496
Claims provisions	**3,238**	3,179	3,113	**78**	84	92	**3,316**	3,263	3,205
Total provisions for insurance contracts	**108,901**	212,032	259,765	**252**	5,290	5,870	**109,153**	217,322	265,635
Investment contracts for risk of company	**810**	4,561	6,259				**810**	4,561	6,259
Investment contracts for risk of policyholders	**1,588**	8,067	6,939				**1,588**	8,067	6,939
Total provisions for investment contracts	**2,398**	12,628	13,198	**0**	0	0	**2,398**	12,628	13,198
Total	**111,299**	224,660	272,963	**252**	5,290	5,870	**111,551**	229,950	278,833

The deferred profit sharing amount on unrealised revaluation is included in Provision for (deferred) profit sharing and rebates and amounts to EUR 3,488 million as at 31 December 2013 (2012: EUR 6,304 million; 2011: EUR 3,721 million).

Changes in life insurance provisions

2013	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)	Provisions for life insurance for risk of policyholder (net of reinsurance)	Reinsurance contracts	Life insurance provisions
Opening balance	117,834	90,754	5,204	213,792
Changes in the composition of the group and other changes	–41,848	–54,915	–4,770	–101,533
	75,986	35,839	434	112,259
Current year provisions	9,973	8,459	490	18,922
Change in deferred profit sharing liability	–2,309			–2,309
Prior year provisions:				
– benefit payments to policyholders	–17,361	–15,466	–756	–33,583
– interest accrual and changes in fair value of liabilities	3,932		35	3,967
– valuation changes for risk to policyholders		13,519		13,519
– effect of changes in other assumptions	151		–2	149
	–13,278	–1,947	–723	–15,948
Exchange rate differences	–3,013	–4,313	–30	–7,356
Closing balance	67,359	38,038	171	105,568

Changes in life insurance provisions

2012	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)	Provisions for life insurance for risk of policyholder (net of reinsurance)	Reinsurance contracts	Life insurance provisions
Opening balance	146,868	109,487	5,774	262,129
Changes in the composition of the group and other changes	–31,577	–23,852	–244	–55,673
	115,291	85,635	5,530	206,456
Current year provisions	13,221	9,122	381	22,724
Change in deferred profit sharing liability	2,889			2,889
Prior year provisions:				
– benefit payments to policyholders	–16,074	–14,919	–668	–31,661
– interest accrual and changes in fair value of liabilities	4,651		38	4,689
– valuation changes for risk to policyholders		13,909		13,909
– effect of changes in other assumptions	–275	–77	16	–336
	–11,698	–1,087	–614	–13,399
Exchange rate differences	–1,869	–2,916	–93	–4,878
Closing balance	117,834	90,754	5,204	213,792

Notes to the Consolidated annual accounts of NN Group continued

Changes in life insurance provisions

2011	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)	Provisions for life insurance for risk of policyholder (net of reinsurance)	Reinsurance contracts	Life insurance provisions
Opening balance	135,314	114,603	5,685	255,602
Changes in the composition of the group and other changes	–335	–2,517	–65	–2,917
	134,979	112,086	5,620	252,685
Current year provisions	13,774	7,623	636	22,033
Change in deferred profit sharing liability	1,963			1,963
Prior year provisions:				
– benefit payments to policyholders	–13,872	–11,812	–700	–26,384
– interest accrual and changes in fair value of liabilities	6,302		35	6,337
– valuation changes for risk to policyholders		–1,190		–1,190
– effect of changes in other assumptions	635	–17	–2	616
	–6,935	–13,019	–667	–20,621
Exchange rate differences	3,087	2,797	185	6,069
Closing balance	146,868	109,487	5,774	262,129

Where discounting is used in the calculation of life insurance provision, the rate is within the range of 2.3% to 4.0% (2012: 3.0% to 5.1%; 2011: 2.8% to 5.5%) based on weighted averages. The change is mainly due to a change in the composition of the portfolio.

Insurance provisions include a provision for the estimated cost of the agreement with regard to unit-linked policies. For more information reference is made to Note 48 “Legal proceedings”.

In 2013, Changes in the composition of the group and other changes includes EUR –129,516 million as a result of the transfer of ING U.S. and EUR 29,445 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

In 2012, “Changes in the composition of the group and other changes” related mainly to the classification of the insurance and investment management businesses in Asia as held for sale. Reference is made to Note 11 “Assets and liabilities held for sale”.

In 2011, “Changes in the composition of the group and other changes” included the transfers of certain insurance contracts.

“Effect of changes in other assumptions” relates mainly to the assumption refinement for the Insurance U.S. Closed Block VA business. This effect has been included as part of net result from discontinued operations in the Consolidated profit and loss account.

To the extent that the assuming reinsurers are unable to meet their obligations, NN Group is liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectable. The life reinsurance market is highly concentrated and, therefore, diversification of exposure is inherently difficult. To minimise its exposure to significant losses from reinsurer insolvencies, NN Group evaluates the financial condition of its reinsurers, monitors concentrations of credit risk arising from similar geographical regions, activities or economic characteristics of the reinsurer and maintains collateral. Reference is also made to the “Risk management” section.

As at 31 December 2013, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounts to EUR 343 million (2012: EUR 5,920 million; 2011: EUR 6,536 million). There was no provision for uncollectable reinsurance in 2013, 2012 and 2011.

Changes in provision for unearned premiums and unexpired risks

	Provision net of reinsurance			Reinsurance contracts			Provision for unearned premiums and unexpired risk		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**265**	297	345	**2**	4	4	**267**	301	349
Changes in the composition of the group and other changes	**2**	–10	–23	**1**	–2		**3**	–12	–23
	267	287	322	**3**	2	4	**270**	289	326
Premiums written	**1,642**	1,693	1,682	**40**	40	43	**1,682**	1,733	1,725
Premiums earned during the year	**–1,643**	–1,715	–1,708	**–40**	–40	–43	**–1,683**	–1,755	–1,751
Exchange rate differences			1				**0**	0	1
Closing balance	**266**	265	297	**3**	2	4	**269**	267	301

Changes in claims provisions

	Provision net of reinsurance			Reinsurance contracts			Claims provision		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**3,179**	3,113	3,103	**84**	92	100	**3,263**	3,205	3,203
Changes in the composition of the group and other changes	**1**	–36	10	**–1**	–2		**0**	–38	10
	3,180	3,077	3,113	**83**	90	100	**3,263**	3,167	3,213
Additions:									
– for the current year	**1,176**	1,213	1,166	**9**	6	10	**1,185**	1,219	1,176
– for prior years	**–86**	–39	–71		2	–11	**–86**	–37	–82
– interest accrual of provision	**40**	45	40				**40**	45	40
	1,130	1,219	1,135	**9**	8	–1	**1,139**	1,227	1,134
Claim settlements and claim settlement costs:									
– for the current year	**–452**	–473	–472	**–1**	–1	–1	**–453**	–474	–473
– for prior years	**–618**	–643	–665	**–13**	–13	–6	**–631**	–656	–671
	–1,070	–1,116	–1,137	**–14**	–14	–7	**–1,084**	–1,130	–1,144
Exchange rate differences	**–2**	–1	2				**–2**	–1	2
Closing balance	**3,238**	3,179	3,113	**78**	84	92	**3,316**	3,263	3,205

NN Group has an outstanding balance of EUR 35 million as at 31 December 2013 (2012: EUR 36 million; 2011: EUR 35 million) relating to environmental and asbestos claims. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean-up, management of NN Group considers facts currently known including current legislation and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims provision the rate is, based on weighted averages, within the range of 3.0% to 4.0% (2012: 3.0% to 4.0%; 2011: 3.0% to 4.0%).

Notes to the Consolidated annual accounts of NN Group continued

Changes in investment contracts liabilities

	2013	2012	2011
Opening balance	**12,628**	13,198	11,974
Changes in the composition of the group and other changes	**–9,504**	53	702
	3,124	13,251	12,676
Current year liabilities	**3,773**	8,865	7,867
Prior year provisions:			
– payments to contract holders	**–4,522**	–9,471	–7,709
– interest accrual	**13**	30	39
– valuation changes investments	**69**	129	–55
	–4,440	–9,312	–7,725
Exchange rate differences	**–59**	–176	380
Closing balance	**2,398**	12,628	13,198

In 2013, Changes in the composition of the group and other changes includes EUR –9,402 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Gross claims development table

									Accident year		
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Estimate of cumulative claims:											
At the end of accident year	**1,096**	**1,109**	**1,100**	**1,020**	**1,078**	**1,200**	**1,169**	**1,217**	**1,232**	**1,217**	
1 year later	**979**	**1,041**	**1,057**	**923**	**1,060**	**1,213**	**1,198**	**1,244**	**1,182**		
2 years later	**856**	**940**	**978**	**859**	**1,033**	**1,153**	**1,159**	**1,191**			
3 years later	**840**	**911**	**965**	**861**	**1,032**	**1,146**	**1,157**				
4 years later	**843**	**896**	**974**	**842**	**1,024**	**1,129**					
5 years later	**836**	**893**	**960**	**837**	**1,041**						
6 years later	**834**	**875**	**965**	**849**							
7 years later	**834**	**875**	**970**								
8 years later	**828**	**875**									
9 years later	**835**										
Estimate of cumulative claims	**835**	**875**	**970**	**849**	**1,041**	**1,129**	**1,157**	**1,191**	**1,182**	**1,217**	**10,446**
Cumulative payments	**–721**	**–775**	**–841**	**–679**	**–820**	**–867**	**–866**	**–793**	**–699**	**–453**	**–7,514**
	114	**100**	**129**	**170**	**221**	**262**	**291**	**398**	**483**	**764**	**2,932**
Effect of discounting	**–6**	**–13**	**–15**	**–24**	**–30**	**–32**	**–39**	**–54**	**–50**	**–34**	**–297**
Liability recognised	**108**	**87**	**114**	**146**	**191**	**230**	**252**	**344**	**433**	**730**	**2,635**
Liability relating to accident years prior to 2004											**681**
Total amount recognised in the balance sheet											**3,316**

NN Group applies the exemption in IFRS-EU not to present Gross claims development for annual periods beginning before 1 January 2004 (the date of transition to IFRS-EU) as it is impracticable to obtain such information.

18 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2013	2012	2011
Savings accounts	**5,769**	0	0

Customer deposits and other funds on deposit by type

	2013	2012	2011
Interest bearing	**5,769**	0	0

The retail banking activities of Nationale-Nederlanden have grown significantly during the year 2013, mainly due to the partial transfer of WestlandUtrecht Bank.

No funds have been entrusted to NN Group by customers on terms other than those prevailing in the normal course of business.

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

19 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss

	2013	2012	2011
Non-trading derivatives	**1,843**	3,258	4,404

The change in Financial liabilities at fair value through profit or loss includes EUR –2,290 million as a result of the transfer of ING U.S. and EUR 1,232 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Non-trading derivatives by type

	2013	2012	2011
Derivatives used in:			
– fair value hedges		203	264
– cash flow hedges	**215**	255	302
– hedges of net investments in foreign operations	**8**		12
Other non-trading derivatives	**1,620**	2,800	3,826
	1,843	3,258	4,404

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

20 OTHER LIABILITIES

Other liabilities by type

	2013	2012	2011
Deferred tax liabilities	**702**	1,220	1,843
Income tax payable	**86**	379	53
Net defined benefit liability	**51**	666	631
Other post-employment benefits	**40**	77	74
Other staff-related liabilities	**147**	254	502
Other taxation and social security contributions	**176**	101	148
Deposits from reinsurers	**58**	869	1,015
Accrued interest	**530**	593	812
Costs payable	**328**	702	1,079
Amounts payable to brokers	**4**	50	72
Amounts payable to policyholders	**464**	2,139	2,171
Reorganisation provision	**155**	275	79
Other provisions	**68**	84	134
Amounts to be settled	**772**	2,687	3,874
Other	**544**	855	1,300
	4,125	10,951	13,787

Disclosures in respect of Net defined benefit liabilities are provided in Note 38 “Pension and other post-employment benefits” and deferred tax liabilities are provided in Note 39 “Taxation”.

The change in Other liabilities includes EUR –4,451 million as a result of the transfer of ING U.S. and EUR 1,093 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Other staff-related liabilities include vacation leave provisions, variable compensation provisions, jubilee provisions and disability/illness provisions.

Other mainly relates to year-end accruals in the normal course of business.

The provision for the estimated cost of the agreement with regard to unit-linked policies is included in “Insurance and investment contracts” as disclosed in Note 17.

Changes in reorganisation provisions

	2013	2012	2011
Opening balance	**275**	79	101
Changes in the composition of the group and other changes	**–10**	–13	–7
Additions	**68**	364	136
Releases	**–36**	–7	–6
Charges	**–142**	–148	–144
Exchange rate differences			–1
Closing balance	**155**	275	79

In 2013, Changes in the composition of the group and other changes includes EUR –10 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

In 2012, a reorganisation provision of EUR 198 million was recognised for the insurance operations in the Netherlands following the initiative to accelerate the transformation programme in preparation for the stand-alone future of NN Group. In response to changing customer preferences and market dynamics, NN Group is undertaking actions to increase its agility in the current operating environment by delayering the support staff structure in the Netherlands and sharpen the strategic focus of its business units, in particular Nationale-Nederlanden. These measures are expected to result in a reduction of the workforce of around 1,350 FTE’s by the end of 2014.

In 2013 EUR 63 million from the reorganisation provision has been used as a result of the workforce reduction. The remaining provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover the remaining costs of the transformation program. The remaining costs are costs for redundant employees in the mobility centre and future redundancies.

In 2012 an additional reorganisation provision of EUR 55 million was recognised for the insurance operations in the Netherlands for the strategic initiatives announced in 2011. The main goals of the strategic initiative are to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. The remainder of this reorganisation provision will be incorporated with the above mentioned reorganisation provision per 2014.

In general Reorganisation provisions are of a short-term.

Changes in other provisions

			Litigation			Other			Total
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**21**	41	54	**63**	93	90	**84**	134	144
Changes in the composition of the group and other changes	**–13**	–10	–3	**30**	4	20	**17**	–6	17
Additions		9	7	**9**	14	27	**9**	23	34
Releases		–14	–7	**–3**	–32	–3	**–3**	–46	–10
Charges	**–4**	–3	–8	**–30**	–14	–34	**–34**	–17	–42
Exchange rate differences	**–1**	–2	–2	**–4**	–2	–7	**–5**	–4	–9
Closing balance	**3**	21	41	**65**	63	93	**68**	84	134

In general Other provisions are of a short-term nature.

The amounts included in Other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

PROFIT AND LOSS ACCOUNT
CONTINUING OPERATIONS
21 GROSS PREMIUM INCOME

Gross premium income

	2013	2012	2011
Gross premium income from life insurance policies	**7,848**	8,972	9,597
Gross premium income from non-life insurance policies	**1,682**	1,733	1,695
	9,530	10,705	11,292

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

Effect of reinsurance on premiums written

			Non-Life			Life			Total
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Direct gross premiums written	**1,656**	1,709	1,672	**7,842**	8,973	9,592	**9,498**	10,682	11,264
Reinsurance assumed gross premiums written	**26**	24	23	**6**	–1	5	**32**	23	28
Total gross premiums written	**1,682**	1,733	1,695	**7,848**	8,972	9,597	**9,530**	10,705	11,292
Reinsurance ceded	**–40**	–40	–39	**–103**	–100	–103	**–143**	–140	–142
	1,642	1,693	1,656	**7,745**	8,872	9,494	**9,387**	10,565	11,150

Effect of reinsurance on non-life premiums earned

	2013	2012	2011
Direct gross premiums earned	**1,657**	1,731	1,699
Reinsurance gross assumed premiums earned	**26**	24	23
Total gross premiums earned	**1,683**	1,755	1,722
Reinsurance ceded	**–40**	–40	–39
	1,643	1,715	1,683

See Note 28 “Underwriting expenditure” for disclosure on reinsurance ceded.

22 INVESTMENT INCOME

Investment income

	2013	2012	2011
Income from real estate investments	**50**	54	50
Dividend income	**180**	196	213
	230	250	263
Interest income from investments in debt securities	**1,922**	2,088	2,146
Interest income from loans:			
– unsecured loans	**176**	235	293
– mortgage loans	**416**	442	444
– policy loans	**8**	9	9
– other	**119**	40	117
Interest income from investments in debt securities and loans	**2,641**	2,814	3,009
Realised gains/losses on disposal of debt securities	**185**	–117	–35
Impairments of available-for-sale debt securities		–15	–584
Realised gains/losses and impairments of debt securities	**185**	–132	–619
Realised gains/losses on disposal of equity securities	**127**	444	368
Impairments of available-for-sale equity securities	**–172**	–144	–173
Realised gains/losses and impairments of equity securities	**–45**	300	195
Interest income on non-trading derivatives	**614**	556	634
Change in fair value of real estate investments	**–6**	–49	1
Investment income	**3,619**	3,739	3,483

In 2013, an impairment of nil (2012: nil; 2011: EUR 390 million) was recognised on Greek government bonds and an impairment of nil (2012: nil; 2011: EUR 189 million) was recognised on subordinated debt from Irish banks. Both are included in Impairments of available-for-sale debt securities. Reference is made to the “Risk management” section for further information on these impairments.

Impairments on investments are presented within Investment Income, which is part of Total income. This can be specified for each segment as follows:

Impairments on investments per segment

			Impairments
	2013	2012	2011
Netherlands Life	**–156**	–131	–281
Netherlands Non-life	**–10**	–9	–42
Insurance Europe	**–3**	–16	–425
Japan Life		–1	
Other	**–3**	–2	–9
	–172	–159	–757

23 RESULT ON DISPOSALS OF GROUP COMPANIES

The result on disposal of the insurance businesses in Hong Kong, Macau and Thailand, the investment management businesses in Malaysia and Thailand and ING Life Korea (2012: the insurance business in Malaysia; 2011: Latin American operations) is not included in “Result on disposals of group companies” but in “Result on disposal of discontinued operations”. Reference is made to Note 33 “Discontinued operations”.

Result on disposal of group companies

	2013	2012	2011
ING Hipotecaria	**–64**		
Other	**19**		–4
	–45	0	–4

Reference is made to Note 49 “Companies and businesses acquired and divested” for more details.

24 COMMISSION INCOME

Gross fee and commission income

	2013	2012	2011
Insurance broking	**89**	97	99
Asset management fees	**716**	687	755
Brokerage and advisory fees	**4**	7	6
Other	**147**	133	477
	956	924	1,337

Asset management fees related to the management of investments held for the risk of policyholders of EUR 36 million (2012: EUR 41 million; 2011: EUR 46 million) are included in Commission Income.

Fee and commission expenses

	2013	2012	2011
Management fees	**20**	28	108
Brokerage and advisory fees			1
Other	**310**	303	591
	330	331	700

“Other” mainly relates to trailer fees paid to third parties.

25 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives

	2013	2012	2011
Change in fair value of derivatives relating to:			
– fair value hedges	**–6**	6	–3
– cash flow hedges (ineffective portion)	**50**	–13	–16
– other non-trading derivatives	**–2,662**	–2,285	1,042
Net result on non-trading derivatives	**–2,618**	–2,292	1,023
Change in fair value of assets and liabilities (hedged items)	**3**	–6	3
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	**–276**	–276	–1
Net valuation results	**–2,891**	–2,574	1,025

Included in Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in Underwriting expenditure. Reference is made to Note 28 “Underwriting expenditure”.

Valuation results on non-trading derivatives are reflected in the Consolidated statement of cash flows in the section “Result before tax”, in the line item “Adjusted for: other”.

26 FOREIGN CURRENCY RESULTS AND NET TRADING INCOME

Foreign currency results and Net trading income

	2013	2012	2011
Foreign currency results	**108**	481	–180
Net trading income	**108**	91	37
Other	**–30**	–33	26
	186	539	–117

Net trading income mainly relates to private equity investments at fair value through profit or loss.

27 OTHER INCOME

In 2011, Other income includes a gain of EUR 95 million on the repurchase of subordinated loans as disclosed in Note 14 “Subordinated loans”.

28 UNDERWRITING EXPENDITURE

Underwriting expenditure

	2013	2012	2011
Gross underwriting expenditure:			
– before effect of investment result for risk of policyholder	**8,655**	10,350	13,238
– effect of investment result for risk of policyholder	**4,930**	5,517	206
	13,585	15,867	13,444
Investment result for risk of policyholders	**–4,930**	–5,517	–206
Reinsurance recoveries	**–70**	–73	–81
Underwriting expenditure	**8,585**	10,277	13,157

The investment income and valuation results regarding investments for risk of policyholders is EUR 4,930 million (2012: EUR 5,517 million; 2011: EUR 206 million). This amount is not recognised in “Investment income” nor “Valuation results on assets and liabilities designated as at fair value through profit or loss” but are in Underwriting expenditure. As a result it is shown together with the equal amount of related change in insurance provisions for risk of policyholders.

Notes to the Consolidated annual accounts of NN Group continued

Underwriting expenditure by class

	2013	2012	2011
Expenditure from life underwriting			
Reinsurance and retrocession premiums	**103**	100	103
Gross benefits	**11,576**	10,860	9,250
Reinsurance recoveries	**–58**	–61	–72
Change in life insurance provisions	**–6,429**	–2,592	1,830
Costs of acquiring insurance business	**1,863**	496	474
Other underwriting expenditure	**92**	75	84
Profit sharing and rebates	**51**	24	112
	7,198	8,902	11,781
Expenditure from non-life underwriting			
Reinsurance and retrocession premiums	**40**	40	39
Gross claims	**1,077**	1,103	1,086
Reinsurance recoveries	**–12**	–12	–9
Changes in the provision for unearned premiums	**–1**	–22	–27
Changes in the claims provision	**70**	109	5
Costs of acquiring insurance business	**258**	263	261
Other underwriting expenditure	**1**		–2
	1,433	1,481	1,353
Expenditure from investment contracts			
Costs of acquiring investment contracts	**1**	2	3
Other changes in investment contract liabilities	**–47**	–108	20
	–46	–106	23
	8,585	10,277	13,157

Profit sharing and rebates

	2013	2012	2011
Distributions on account of interest or underwriting results	**–26**	–28	21
Bonuses added to policies	**77**	52	91
	51	24	112

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 2,122 million (2012: EUR 761 million; 2011: EUR 738 million). This includes amortisation and unlocking of DAC of EUR 1,892 million (2012: EUR 1,066 million; 2011: EUR 1,702 million) and the net amount of commissions paid of EUR 854 million (2012: EUR 1,369 million; 2011: EUR 623 million) and commissions capitalised in DAC of EUR 624 million (2012: EUR 1,674 million; 2011: EUR 1,587 million). In 2013, Cost of acquiring insurance business includes the reduction of DAC of EUR 1,405 million for Japan Closed Block VA as explained below.

The total amount of commission paid and commission payable amounted to EUR 841 million (2012: EUR 897 million; 2011: EUR 903 million). This includes the commissions recognised in Costs of acquiring insurance business of EUR 854 million (2012: EUR 1,369 million; 2011: EUR 623 million) referred to above and commissions recognised in Other underwriting expenditure of EUR –13 million (2012: EUR –472 million; 2011: EUR 280 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 16 million (2012: EUR 23 million; 2011: EUR 26 million).

In 2013, “Change in life insurance provisions” includes an amount of EUR 177 million as a result of the refined market interest rate assumption that is used in determining certain components of the insurance liabilities for the separate account pension business in the Netherlands.

As set out in the section “Principles of valuation and determination of results – Insurance, investment and reinsurance contracts”, ING applies, for certain specific products or components thereof, the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market-consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan. The impact of these market-consistent assumptions is reflected in “Underwriting expenditure – Change in life insurance provisions”.

This impact was largely offset by the impact of related hedging derivatives. As disclosed in Note 28 “Valuation results on non-trading derivatives”, the valuation results on non-trading derivatives include the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. For insurance operations, these derivatives hedge exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in Insurance contract liabilities, which are included in Underwriting expenditure.

The “Change in life insurance provision” in 2013 includes a larger release from Insurance provisions compared to 2012 following an increase in benefit payments and lower premium income. “Underwriting expenditure – Gross benefits” increased by EUR 716 million in 2013 compared to 2012, which was largely offset by lower “Changes in life insurance provisions”. Gross premium income in 2013 was EUR 1,175 million lower compared to 2012. Furthermore, “Change in life insurance provision” in 2013 includes a release of EUR 867 million related to Japan Closed block VA as explained below.

In 2013, the separate reporting of the Japan Closed Block VA business line triggered a charge of EUR 575 million before tax to restore the reserve inadequacy of that business line to the 50% confidence level. This charge includes a reduction of DAC of EUR 1,405 million (included in “Underwriting expenditure – Costs of acquiring insurance business”, which is partly offset by a release of the life insurance provision related to unearned revenues of EUR 867 million (included in “Underwriting expenditure – Change in life insurance provisions”). Reference is made to Note 53 “Other events”.

29 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) other impairments

	2013	2012	2011
Property and equipment	**1**	1	1
Goodwill		56	
Software and other intangible assets	**2**	2	34
(Reversals of) other impairments	**3**	59	35
Amortisation of other intangible assets	**8**	10	7
	11	69	42

Reference is made to Note 9 “Intangible assets” for more details.

Impairment on Loans and advances to customers are presented under Investment income. Reference is made to the “Risk management” section for further information on impairments.

30 STAFF EXPENSE

Staff expense

	2013	2012	2011
Salaries	**747**	759	799
Pension costs	**67**	–146	35
Other staff related benefit costs	**–8**	35	4
Social security costs	**101**	105	95
Share-based compensation arrangements	**11**	16	15
External employees	**206**	207	139
Education	**14**	18	15
Other staff costs	**40**	43	26
	1,178	1,037	1,128

In 2013 and 2012, the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150,000 of each employee, subject to Dutch income tax. The tax is charged to NN Group and does not affect the remuneration of involved staff. The tax imposed on NN Group for relevant employees amounts to EUR 6.0 million (2012:EUR 5.8 million) which is included in the amounts in the table above.

Notes to the Consolidated annual accounts of NN Group continued

Number of employees

	Netherlands			International			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Continuing operations – average number of employees at full time equivalent basis	**6,217**	6,868	7,305	**4,995**	5,643	5,796	**11,212**	12,511	13,101
Discontinued operations – average number of employees at full time equivalent basis				**7,285**	13,182	20,143	**7,285**	13,182	20,143
Total average number of employees at full time equivalent basis	**6,217**	6,868	7,305	**12,280**	18,825	25,939	**18,497**	25,693	33,244

Remuneration of senior management, Management Board and Supervisory Board

Reference is made to Note 52 “Related parties”.

Stock option and share plans

NN Group’s ultimate parent, ING Groep N.V., has granted option rights on ING Groep N.V. shares and conditional rights on depositary receipts (share awards) for ING Group shares to a number of senior executives (members of the management board, general managers and other officers nominated by the Management Board NN Group) and to a considerable number of employees of NN Group. The purpose of the option and share schemes, is to attract, retain and motivate senior executives and staff.

In 2012, ING granted three types of share awards, deferred shares, performance shares and upfront shares. The entitlement to the share awards was granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING depositary receipts that would ultimately be granted at the end of a performance period is dependent on ING’s performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of NN Group, as well as Identified staff. ING has the authority to apply a hold back to awarded but unvested shares and a claw-back to vested shares.

In 2013, 58,954 share awards (2012: 509,553; 2011: 25,370) were granted to the Management Board NN Group. To senior management and other employees of NN Group 2,584,479 share awards (2012: 9,506,061; 2011: 8,819,873) were granted.

Every year, the Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010 the Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2011 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

As at 31 December 2013, no own shares were held in order to fulfil its obligations with regard to the existing stock option plan. As at 31 December 2012: 26,429,948 own shares (2011: 42,126,329) were held in connection with the option plan.

The obligations with regard to the share plans will be funded either by cash or by newly issued shares.

The tables below disclose the option rights outstanding for employees of NN Group.

Changes in option rights outstanding

	Options outstanding (in number)			Weighted average exercise price (in euros)		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**33,821,638**	44,189,864	49,162,987	**14.68**	14.71	14.97
Exercised or transferred	**–19,602,450**	–1,993,691	2,170,169	**14.56**	3.42	21.49
Forfeited	**–553,906**	–1,021,065	–1,259,217	**14.43**	10.62	12.68
Expired	**–3,477,340**	–7,353,470	–5,884,075	**11.48**	18.40	20.06
Closing balance	**10,187,942**	33,821,638	44,189,864	**15.99**	14.68	14.71

In 2013, “Exercised or transferred” includes 16,750,023 option rights related to ING U.S., which was transferred to ING Group. Reference is made to Note 53 “Other events”.

Notes to the Consolidated annual accounts of NN Group continued

As at 31 December 2013 total options outstanding consists of 3,302,570 options (2012: 29,804,428; 2011: 39,333,056) relating to equity-settled share-based payment arrangements and 6,885,372 options (2012: 4,017,210; 2011: 4,856,808) relating to cash-settled share-based payment arrangements.

The weighted average share price at the date of exercise for options exercised in 2013 is EUR 8.24 (2012: EUR 6.15; 2011: EUR 8.09).

Changes in option rights non-vested

	Options non-vested (in number)			Weighted average grant date fair value (in euros)		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**6,180,625**	14,164,245	21,552,537	**3.27**	2.61	3.01
Vested or transferred	**–6,012,595**	–7,333,710	–6,580,861	**3.27**	2.05	3.88
Forfeited	**–168,030**	–649,910	–807,431	**3.27**	2.74	3.03
Closing balance	**0**	6,180,625	14,164,245	**0.00**	3.27	2.61

Summary of stock options outstanding and exercisable

2013 **Range of exercise price in euros**	**Options outstanding as at 31 December 2013**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2013**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**904,094**	**5.07**	**2.90**	**904,094**	**5.07**	**2.90**
5.00 – 10.00	**1,892,578**	**6.21**	**7.36**	**1,892,578**	**6.21**	**7.36**
10.00 – 15.00	**1,002,815**	**0.39**	**14.37**	**1,002,815**	**0.39**	**14.37**
15.00 – 20.00	**3,537,026**	**2.79**	**17.23**	**3,537,026**	**2.79**	**17.23**
20.00 – 25.00	**1,389,814**	**3.11**	**24.59**	**1,389,814**	**3.11**	**24.59**
25.00 – 30.00	**1,461,615**	**2.23**	**25.17**	**1,461,615**	**2.23**	**25.17**
	10,187,942			**10,187,942**		

Summary of stock options outstanding and exercisable

2012 Range of exercise price in euros	Options outstanding as at 31 December 2012	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2012	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	4,491,078	6.17	2.90	4,491,078	6.17	2.90
5.00 – 10.00	8,364,153	5.43	7.80	2,183,528	0.34	9.06
10.00 – 15.00	2,774,702	1.27	14.31	2,774,702	1.27	14.31
15.00 – 20.00	9,725,616	3.73	17.26	9,725,616	3.73	17.26
20.00 – 25.00	4,004,382	4.17	24.58	4,004,382	4.17	24.58
25.00 – 30.00	4,461,707	3.23	25.17	4,461,707	3.23	25.17
	33,821,638			27,641,013		

Summary of stock options outstanding and exercisable

2011 Range of exercise price in euros	Options outstanding as at 31 December 2011	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2011	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	6,809,837	7.18	2.90			
5.00 – 10.00	9,591,024	6.58	7.78	2,236,616	1.19	9.12
10.00 – 15.00	3,172,161	2.27	14.30	3,172,161	2.27	14.30
15.00 – 20.00	12,305,273	4.24	17.08	12,305,273	4.24	17.08
20.00 – 25.00	7,104,328	3.23	23.80	7,104,328	3.23	23.80
25.00 – 30.00	5,207,241	4.27	25.18	5,207,241	4.27	25.18
	44,189,864			30,025,619		

As at 31 December 2013, the aggregate intrinsic value of options outstanding and exercisable are EUR 12 million and EUR 12 million, respectively (2012: EUR 19 million and EUR 19 million respectively and 2011: EUR 18 million and nil respectively).

As at 31 December 2013, unrecognised compensation costs related to stock options amounted to nil (2012: EUR 1 million; 2011: EUR 10 million).

The fair value of options granted is recognised as an expense in staff expenses and is allocated over the vesting period of the options. The fair value of the option awards have been determined by using a Monte Carlo simulation model. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 26.05), the expected volatility of the certificates of ING Groep N.V. shares (25% – 84%) and the expected dividend yield (0.94% – 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING Group's trading system. The implied volatilities in this system are determined by ING Group's traders and are based on market data implied volatilities, not on historical volatilities.

31 INTEREST EXPENSE

Other interest expense mainly consist of interest on the subordinated loans.

In 2013, total interest income and total interest expense for items not valued at fair value through profit or loss were EUR 2,641 million and EUR –255 million respectively (2012: EUR 2,814 million and EUR –303 million respectively; 2011: EUR 3,009 million and EUR –378 million respectively). Net interest income of EUR 2,050 million is presented in the following lines in the profit and loss account.

Total net interest income

	2013	2012	2011
Investment income 22	**2,641**	2,814	3,009
Interest expense on non-trading derivatives	**–336**	–302	–350
Other interest expense	**–255**	–303	–378
	2,050	2,209	2,281

32 OTHER OPERATING EXPENSE

Other operating expense

	2013	2012	2011
Depreciation of property and equipment	**37**	31	29
Amortisation of software	**54**	50	36
Computer costs	**219**	203	173
Office expense	**133**	138	144
Travel and accommodation expenses	**17**	23	35
Advertising and public relations	**51**	52	49
External advisory fees	**116**	172	198
Postal charges	**9**	3	–1
Addition/(releases) of provision for reorganisations and relocations	**6**	254	43
Other	**206**	348	387
	848	1,274	1,093

Other operating expense include lease and sublease payments for the amount of EUR 13 million (2012: EUR 11 million; 2011: EUR 2 million) in respect of operating leases in which NN Group is the lessee. No individual operating lease has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of NN Group.

For Addition/(releases) of provision for reorganisation and relocations reference is made to the disclosure on the reorganisation provision in Note 20 “Other liabilities”.

DISCONTINUED OPERATIONS

33 DISCONTINUED OPERATIONS

As at 31 December 2013, ING U.S. and the remaining insurance and investment management businesses in Asia (“Asia”), excluding NN Group’s business in Japan are classified as discontinued operations.

ING U.S.

At 30 September 2013, the remaining interest in ING U.S. was transferred to ING Groep N.V. As of the date of transfer, ING U.S. ceased to be consolidated; the results for the period until transfer are presented as discontinued operations.

NN Group’s business in Japan

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group’s European insurance and investment management businesses in the base case IPO of NN Group in 2014.

As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re (“NN Group’s business in Japan”) are no longer classified as discontinued operations. All references to Asia in this disclosure therefore, refer to the insurance and investment management businesses in Asia other than NN Group’s business in Japan.

Reference is made to Note 53 “Other events”.

In 2011, the pension, life insurance and investment management activities in Latin America (“Latin America”) were classified as discontinued operations. The divestment of Latin America was completed in December 2011.

Total net result from discontinued operations

	2013	2012	2011
ING U.S.	**–174**	502	–635
Asia	**219**	337	319
Latin America			114
Net result from discontinued operations	**45**	839	–202
Net result from classification as discontinued operations Asia	**–42**	–394	
Net result from disposal of discontinued operations (1)	**17**	752	995
Total net result from discontinued operations	**20**	1,197	793

(1) The tax effect on the result on disposal of discontinued operations is nil.

Notes to the Consolidated annual accounts of NN Group continued

Net result from discontinued operations consists of the net result (after tax) of the businesses classified as discontinued operations and is presented separately in the profit and loss account. Net result from ING U.S. included in Net result from discontinued operations covers the period from the beginning of the year, till 30 September 2013 when it was transferred to ING Groep N.V.

Net result from discontinued operations was as follows:

Result from discontinued operations

	2013	2012	2011
Total income	**13,354**	21,840	22,358
Total expenses	**13,174**	20,909	22,567
Result before tax from discontinued operations	**180**	931	–209
Taxation	**135**	92	–7
Net result from discontinued operations	**45**	839	–202

In 2013, “Net result from classification as discontinued operations Asia” included a goodwill write-off of EUR 42 million in Investment Management Taiwan. In 2012, “Net result from classification as discontinued operations Asia” included goodwill write-offs of EUR 200 million in ING Life Korea, EUR 180 million in Investment Management Korea and EUR 15 million in ING Vysya Life Insurance. Reference is made to Note 11 “Assets and liabilities held for sale”.

In 2013, “Net result from disposal of discontinued operations” includes mainly the divestment gain on the sale of the insurance businesses in Hong Kong, Macau and Thailand of EUR 944 million and the divestment loss of EUR 989 million on the sale of ING Life Korea. In 2012, “Net result from disposal of discontinued operations” included the divestment gain on the sale of the insurance business in Malaysia. In 2011, Net result from disposal of discontinued operations included the divestment gain on the sale of Latin America. Reference is made to Note 49 “Companies and businesses acquired and divested”.

The net cash flow from discontinued operations was as follows:

Net cash flow from discontinued operations

	2013	2012	2011
Operating cash flow	**–5,751**	1,171	3,655
Investing cash flow	**3,961**	–2,075	929
Financing cash flow	**–642**	1,351	–4,613
Net cash flow	**–2,432**	447	–29

Sales proceeds in cash are presented in the Consolidated statement of cash flows under “Net cash flow from investment activities – Disposals and redemptions: group companies”. The proceeds relating to the IPO of ING U.S. are presented in the Consolidated statement of cash flows under “Proceeds of IPO ING U.S.”. These proceeds are not included in the table above.

The activities of ING U.S. were, prior to the transfer of ING U.S., reported in the segments Insurance United States, Insurance Closed Block VA, Investment management US and in the Corporate line US. Due to the transfer, these segments ceased to exist.

The insurance and investment management businesses in Asia were previously included respectively in the segments Insurance Asia/Pacific, Investment Management and in Other before they were classified as discontinued operations and held for sale. The segment Insurance Asia/Pacific ceased to exist in 2012, following the classification as discontinued operations, as all activities previously included in this segment are now discontinued operations.

STATEMENT OF CASH FLOWS

34 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or divested is presented in Note 49 “Companies and businesses acquired and divested”.

35 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received or paid

	2013	2012	2011
Interest received	**3,806**	3,558	3,861
Interest paid	**–595**	–612	–811
	3,211	2,946	3,050
Dividend received	**217**	252	340
Dividend paid	**–882**		

Interest received, interest paid and dividends received are included in operating activities in the Consolidated statement of cash flows. Dividend paid is included in financing activities in the Consolidated statement of cash flows.

OTHER

36 SEGMENTS

NN Group’s segments are based on the internal reporting structure by lines of business. The segments Insurance United States, Insurance US Closed Block VA, Investment Management US and Corporate line US ceased to exist due to the transfer of ING U.S. In 2012, the segment Insurance Asia/Pacific ceased to exist. Furthermore during 2013, NN Group has adjusted its reporting structure to better align its segmentation with the businesses that it comprises, their governance and internal management, and to reflect the decision to include ING Japan with the intended IPO of NN Group. Reference is made to Note 53 “Other events”. The comparatives have been adjusted to reflect the new segment structure.

The new reporting segments for NN Group are as follows:

Segments of NN Group
Netherlands Life
Netherlands Non-life
Insurance Europe
Japan Life
Investment Management (IM)
Other
Japan Closed Block VA

The Management Board NN Group sets the performance targets and approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Management Board.

The accounting policies of the segments are the same as those described in Note 1 “Accounting policies”. Transfer prices for inter-segment transactions are set at arm’s length. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income and/or assets of the segment.

As of 2013, NN Group evaluates the results of its segments using a financial performance measure called operating result. Operating result is defined as result under IFRS-EU excluding the impact of non-operating items, divestments, discontinued operations and special items. Disclosures on comparative years also reflect the impact of current year’s divestments. Non-operating items include realised capital gains/losses and impairments on debt and equity securities, revaluations on assets marked-to-market through the profit and loss account and other non-operating market impacts. Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary operating activities.

The operating result for the life insurance business is analysed through a margin analysis, which includes the investment margin, fees and premium-based revenues and the technical margin. Operating result as presented below is a non-GAAP financial measure and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, operating result as presented by NN Group may not be comparable to other similarly titled measures of performance of other companies.

Notes to the Consolidated annual accounts of NN Group continued

The operating result of NN Group's segments is reconciled to the Net result as reported in the IFRS-EU Consolidated profit and loss account below.

The information presented in this note is in line with the information presented to the Management Board NN Group.

The following table specifies the main sources of income of each of the segments:

Specification of the main source of income of each of the segments

Segment	Main source of income
Netherlands Life	Income from group life and individual life insurance products in the Netherlands
Netherlands Non-life	Income from non-life insurance in the Netherlands including disability and accident, fire, motor and transport insurance
Insurance Europe	Income from life insurance, pension products and to a small extent non-life insurance and retirement services in Central and Rest of Europe
Japan Life	Income from life insurance primarily Corporate Owned Life Insurance (COLI) business
Investment Management (IM)	Income from investment management activities.
Other	Income from banking activities in the Netherlands, corporate reinsurance and items related to capital management.
Japan Closed Block VA	Consists of the closed block single premium variable annuity individual life insurance portfolio in Japan, including the internally reinsured minimum guarantee risk, which has been closed to new business and which is now being managed in run-off.

In addition to these segments, NN Group reconciles the total segment results to the total result using Insurance Other. Insurance Other reflects the share in the result of the Brazilian insurer Sul América and overhead expenses of ING Group allocated to NN Group. As of 2014, Insurance Other will cease to exist.

This note does not provide information on the revenue specified to each product or service as this is not reported internally and is therefore not readily available.

Operating result (before tax) is used by NN Group to evaluate the financial performance of its segments. Each segment's operating result is calculated by adjusting the reported result before tax for the following items:

- Non-operating items: related to (general account) investments that are held for own risk (net of policyholder profit sharing):
  - Capital gains/losses and impairments: realised gains and losses as well as impairments on financial assets that are classified as available for sale. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds as well as loans quoted in active markets.
  - Revaluations: revaluations on assets marked-to-market through the Consolidated profit and loss account. These investments include private equity (associates), real estate (property and associates), derivatives unrelated to product hedging programs (i.e. interest rate swaps, foreign exchange hedges) and direct equity hedges.
  - Market & other impacts: these impacts mainly comprise the change in the provision for guarantees on separate account pension contracts (net of hedging) in the Netherlands, the equity related and other deferred acquisition costs unlocking for Japan Closed-Block VA as well as the accounting volatility related to the reinsurance of minimum guaranteed benefits of Japan Closed-Block VA.
- Result on divestments: result before tax related to divested operations.
- Special items before tax: items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary business activities and therefore are not expected to recur frequently or regularly. This includes for instance restructuring expenses, goodwill impairments, results related to early retirement of debt and gains/losses from employee pension plan amendments or curtailments.
- Total net result from discontinued operations: Reference is made to Note 33 "Discontinued operations".

Notes to the Consolidated annual accounts of NN Group continued

Segments

2013	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Insurance Other	Total
Investment margin	557		105	7	1				669
Fees and premium based revenues	461		507	436	444		136		1,984
Technical margin	237		191	2					431
Operating income non-modelled life business			20						20
Life & IM operating income	1,255	0	824	445	445	0	136	0	3,104
Administrative expenses	472		310	106	314		18	18	1,238
DAC amortisation and trail commissions	75		319	177			38		609
Life & IM expenses	547	0	630	283	314	0	56	18	1,847
Life & IM operating result	709	0	194	162	131	0	80	–18	1,257
Non-life operating result		79	5						84
Operating result Other						–373			–373
Operating result	709	79	199	162	131	–373	80	–18	968
Non-operating items:									
– gains/losses and impairments	–43	–1	55	42		44	1		98
– revaluations	27	5	–3	–11		–14			3
– market & other impacts	–329						–750		–1,079
Special items before tax	–22	–16	–9			–79			–126
Result on divestments	5					–50		129	84
Result before tax from continuing operations	347	66	243	192	131	–473	–669	111	–52
Taxation	65	14	77	71	34	–93	–214	–4	–50
Minority interests	6		9						16
Net result from continuing operations	276	53	156	121	97	–380	–454	115	–18
Total net result from discontinued operations					31	164		–167	28
Net result	276	53	156	121	127	–216	–454	–52	10

Result on divestments reflects the sale of NN Group’s direct interest in Sul América S.A. and the sale of ING Hipotecaria.

Special items in 2013 is primarily related to the previously announced restructuring programme and additional IT expenses which is partly offset by pension curtailments in the Netherlands.

Reference is made to Note 33 “Discontinued operations” for information on discontinued operations.

Notes to the Consolidated annual accounts of NN Group continued

Segments

2012	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Insurance Other	Total
Investment margin	562		122	10					694
Fees and premium based revenues	508		514	490	430		148		2,092
Technical margin	141		210	23					374
Operating income non-modelled life business			20						20
Life & IM operating income	1,211	0	866	523	430	0	148	0	3,177
Administrative expenses	495		334	130	321		13	22	1,315
DAC amortisation and trail commissions	92		321	197			50		660
Life & IM expenses	587	0	654	328	321	0	64	22	1,976
Life & IM operating result	623	0	212	196	109	0	85	–22	1,202
Non-life operating result		103	7						110
Operating result Other						–399			–399
Operating result	623	103	219	196	109	–399	85	–22	914
Non-operating items:									
– gains/losses and impairments	138	1	–82	4	1	10			70
– revaluations	–296	–15	17	10		–34			–319
– market & other impacts	–530		–1				21		–510
Special items before tax	–225	–140	–38		–6	–43			–451
Result on divestments	–23					–7		80	50
Result before tax from continuing operations	–313	–51	115	209	105	–474	105	59	–245
Taxation	–162	–16	25	69	27	–84	33	–5	–113
Minority interests	12		9						21
Net result from continuing operations	–164	–35	81	140	77	–388	72	64	–153
Total net result from discontinued operations					–212	910		494	1,191
Net result	–164	–35	81	140	–135	523	72	558	1,038

Special items in 2012 includes costs mainly related to the strategic reorganisation measures of approximately EUR 207 million, the separation and IPO preparation of EUR 221 million, which is partly offset by a pension curtailment of EUR 100 million following the new Dutch employee pension scheme announced in 2012.

Reference is made to Note 33 “Discontinued operations” for information on discontinued operations.

Notes to the Consolidated annual accounts of NN Group continued

Segments

2011	Nether-lands Life	Nether-lands Non-life	Insu-rance Europe	Japan Life	IM	Other	Japan Closed Block VA	Insu-rance Other	Total
Investment margin	596		159	2	3				760
Fees and premium based revenues	499		548	437	434		149		2,065
Technical margin	278		206	–4					479
Operating income non-modelled life business	36		9						45
Life & IM operating income	1,409	0	921	434	437	0	149	0	3,350
Administrative expenses	533		353	129	313		9	28	1,364
DAC amortisation and trail commissions	109		307	187			50		652
Life & IM expenses	641	0	659	315	313	0	59	28	2,015
Life & IM operating result	768	0	262	119	124	0	91	–28	1,335
Non-life operating result		186	4						191
Operating result Other						–313			–313
Operating result	768	186	266	119	124	–313	91	–28	1,213
Non-operating items:									
– gains/losses and impairments	193	–45	–599	7	5	6			–433
– revaluations	72	5	–16	1		–39			23
– market & other impacts	–250						47		–202
Special items before tax	–83	–53	–90		–10	22			–214
Result on divestments						–8		92	83
Result before tax from continuing operations	700	93	–439	126	118	–333	138	64	468
Taxation	85	19	–49	–29	34	–95	57	–7	15
Minority interests	4		10						14
Net result from continuing operations	611	75	–400	156	85	–238	81	71	439
Total net result from discontinued operations					24	1,398		–635	787
Net result	611	75	–400	156	109	1,160	81	–564	1,226

Result on divestments in 2011 reflects the results on the sale of IIM Australia and Pacific Antai Life Insurance Company Ltd.

Special items in 2011 includes mainly, an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities, the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 27 “Other income” and Note 14 “Subordinated loans”, and restructuring expenses.

Reference is made to Note 33 “Discontinued operations” for information on discontinued operations.

Interest income and interest expenses breakdown by segments

2013	**Nether-lands Life**	**Nether-lands Non-life**	**Insu-rance Europe**	**Japan Life**	**IM**	**Other**	**Japan Closed Block VA**	**Total**
Interest income	**1,995**	**110**	**566**	**146**	**1**	**103**	**334**	**3,255**
Interest expense	**93**		**21**	**2**		**156**	**319**	**591**
	1,902	**110**	**545**	**144**	**1**	**–53**	**15**	**2,664**

Interest income and interest expenses breakdown by segments

2012	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Total
Interest income	1,983	122	660	188	4	110	303	3,370
Interest expense	118	1	6	3	2	203	272	605
	1,865	121	654	185	2	–93	31	2,765

Interest income and interest expenses breakdown by segments

2011	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Total
Interest income	2,187	139	689	158	6	19	445	3,643
Interest expense	221	1	7	3	5	115	376	728
	1,966	138	682	155	1	–96	69	2,915

IFRS-EU balance sheets by segment are not reported internally to, and not managed by, the chief operating decision maker.

Total assets and Total liabilities by segment

	2013		2012		2011	
	Total assets	Total liabilities	Total assets	Total liabilities	Total assets	Total liabilities
Netherlands Life	**79,087**	**69,154**	82,098	71,227	82,150	70,048
Netherlands Non-life	**4,426**	**3,692**	4,372	3,818	4,100	3,642
Insurance Europe	**22,004**	**20,175**	24,482	22,486	22,489	20,863
Japan Life	**9,438**	**8,147**	10,998	9,035	10,838	8,971
Investment Management (IM)	**552**	**192**	639	275	775	354
Other	**32,842**	**18,482**	44,740	17,233	51,268	25,616
Japan Closed Block VA	**18,651**	**17,415**	25,518	24,079	26,993	26,006
Assets and liabilities classified as discontinued operations	**630**	**466**	184,451	171,065	183,139	169,770
Total segments	**167,630**	**137,723**	377,298	319,218	381,752	325,270
Eliminations	**–21,872**	**–6,260**	–38,545	–7,105	–46,144	–13,136
Total	**145,758**	**131,463**	338,753	312,113	335,608	312,134

37 INFORMATION ON GEOGRAPHICAL AREAS

NN Group's business lines operate in the following geographical areas: Netherlands, Belgium, Rest of Europe and Asia. The Netherlands is NN Group's country of domicile. Geographical distribution of income is based on the origin of revenue. A geographical area is a distinguishable component of NN Group engaged in providing products and services within a particular economic environment that is subject to risks and returns that are different from those of segment operating in other economic environments. The geographical analyses are based on the location of the office from which the transaction is originated.

Geographical areas

2013	**Netherlands**	**Belgium**	**Rest of Europe**	**Asia**	**Other**	**Eliminations**	**Total**
Total income	**8,140**	**860**	**2,841**	**349**	**36**	**–1,065**	**11,161**
Total assets	**160,552**	**7,843**	**15,178**	**28,089**	**644**	**–66,548**	**145,758**

Geographical areas

2012	Netherlands	Belgium	Rest of Europe	Asia	Other	Eliminations	Total
Total income	8,620	1,099	3,139	1,477	227	–1,545	13,017
Total assets	188,590	8,668	17,103	36,516	188,419	–100,543	338,753

Geographical areas

2011	Nether-lands	Belgium	Rest of Europe	Asia	Other	Elimi-nations	Total
Total income	12,138	1,193	2,989	3,252	247	–3,203	16,616
Total assets	183,471	8,374	16,071	37,830	185,925	–96,063	335,608

38 PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The disclosures below refer to the position as at balance sheet date. Reference is made to Note 55 “Subsequent events” on the Dutch closed defined benefit plan, which represents approximately 95% (based on 2013 plan assets) of the total defined benefit schemes.

Balance sheet

Summary of net defined benefit asset/liability

	Pension benefits		
	2013	2012	2011
Fair value of plan assets	**6,457**	7,542	6,644
Defined benefit obligation	**6,125**	7,538	5,803
Net defined benefit asset/(liability) recognised in the balance sheet (Funded status)	**332**	4	841
Presented as:			
– Other assets	**383**	670	1,472
– Other liabilities	**–51**	–666	–631
Closing balance	**332**	4	841

NN Group maintains defined benefit retirement plans in some countries of operation. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is either at the discretion of management or dependent upon the sufficiency of plan assets.

NN Group provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and post-employment defined benefit early-retirement plans.

Several Dutch subsidiaries of NN Group participate in the Stichting Pensioenfonds ING, in which also (subsidiaries) of ING Bank N.V. participate. NN Group N.V. and ING Bank N.V. are jointly and severally liable for deficits in the Stichting Pensioenfonds ING if the coverage ratio is below certain levels. The pension liability, assets and related expense are allocated to NN Group N.V. and ING Bank N.V.

The most recent actuarial valuations of the plan assets and the defined benefit obligation were carried out at 31 December 2013. The defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Changes in fair value of plan assets

	Fair value of plan assets		
	2013	2012	2011
Opening balance	**7,542**	6,644	5,813
Interest income	**268**	353	306
Remeasurements: Return on plan assets excluding amounts included in interest income	**–274**	580	482
Employer’s contribution	**250**	236	243
Participants’ contributions	**9**	9	1
Benefits paid	**–218**	–230	–230
Effect of settlement	**–97**		
Changes in the composition of the group and other changes	**–1,017**	–32	–2
Exchange rate differences	**–6**	–18	31
Closing balance	**6,457**	7,542	6,644

In 2013, Changes in the composition of the group and other changes includes EUR –1,123 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events". The remainder mainly relates to the transfer of approximately 400 WestlandUtrecht Bank's employees to NN Bank. Reference is made to Note 49 "Companies and businesses acquired and divested".

The actual return on the plan assets amounts to EUR –6 million (2012: EUR 933 million; 2011: EUR 788 million).

No plan assets are expected to be returned to NN Group during 2014.

Changes in defined benefit obligation and other post-employment benefits

	Defined benefit obligation			Other post-employment benefits		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**7,538**	5,803	5,758	**77**	74	69
Current service cost	**122**	102	105	**–7**	7	5
Interest cost	**266**	299	303			
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	**2**					
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	**–112**	1,814	–99			
Benefits paid	**–220**	–232	–250		–4	–4
Past service cost			1			
Changes in the composition of the group and other changes	**–1,354**	–80	–3	**–29**	1	3
Effect of curtailment or settlement	**–100**	–133	–64			
Exchange rate differences	**–17**	–35	52	**–1**	–1	1
Closing balance	**6,125**	7,538	5,803	**40**	77	74

In 2013, Changes in the composition of the group and other changes includes EUR –1,494 million as a result of the transfer of ING U.S. and EUR 45 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events". The remainder mainly relates to the transfer of approximately 400 WestlandUtrecht Bank's employees to NN Bank. Reference is made to Note 49 "Companies and businesses acquired and divested".

2013 – Effect of curtailment

In 2013, "Effect of curtailment or settlement" includes the curtailments of a pension plan in the Netherlands. This plan is closed for new pension rights and is replaced by a defined contribution plan.

2012 – Effect of curtailment – New pension plan for employees in the Netherlands

In 2012, an agreement on a new pension plan for employees in the Netherlands was finalised, following acceptance by both the unions and their members. The new pension plan has taken effect on 1 January 2014. Under the agreement, a new separate pension fund has been created. The new plan qualifies as a defined contribution plan under IFRS-EU and has replaced the existing defined benefit plan in the Netherlands.

The key elements of the new scheme are:

- NN Group contributes a yearly pre-defined premium to the fund. The employee contribution to the new scheme will gradually increase to one-third of the base pension premium;
- The minimum salary level at which pensions are provided will be lowered to EUR 15,000;
- Pension benefit will be based on average wage over period of employment with a 2% annual accrual rate;
- The pension fund, not NN Group, will bear responsibility for funding adequacy; NN Group to pay an additional risk premium;
- Responsibility for inflation indexation will move to the new fund; and
- Standard retirement age will be raised to 67.

At the start of the new defined contribution plan on 1 January 2014, the current defined benefit plan has stopped accruing new pension benefits. Accruals recognised under the defined benefit plan up to that date will remain valid. The change to the new pension plan represents a curtailment under IFRS-EU and has resulted in a release of provisions previously taken by NN Group to cover estimated future liabilities in the existing defined benefit plan that are now no longer required. This release amounted to a one-off gain of EUR 100 million after tax (EUR 133 million before tax). The curtailment was included in Staff expenses in 2012. This curtailment is related to the defined benefit plan in the Netherlands, which represented approximately 75% of the above defined benefit obligation on 31 December 2012.

2011 – Effect of curtailment

In 2011, effect of curtailment or settlement related mainly to a curtailment in relation to a change in one of the pension plans in the United States.

Amounts recognised directly in Other comprehensive income (equity) were as follows:

Remeasurement of the net defined benefit asset/liability

	2013	2012	2011
Remeasurement of plan assets	**–274**	580	482
Actuarial gains and losses arising from changes in demographic assumptions	**–2**		
Actuarial gains and losses arising from changes in financial assumptions	**112**	–1,814	99
Changes in the composition of the group and other changes	**170**	2	–14
Taxation	**–48**	322	–137
	–42	–910	430

The cumulative amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –1,388 million (EUR –1,042 million after tax) as at 31 December 2013 (2012: EUR –1,395 million, EUR –1,000 million after tax; 2011: EUR –163 million, EUR –90 million after tax).

Information on plan assets and defined benefit obligation per country

The defined benefit obligation per country and the plan assets per country can be specified as follows:

Plan assets and defined benefit obligation per country

	Plan assets			Defined benefit obligation		
	2013	2012	2011	**2013**	2012	2011
The Netherlands	**6,436**	6,482	5,679	**6,053**	5,818	4,202
Belgium	**8**	8	7	**15**	16	13
Other countries	**13**	1,052	958	**57**	1,704	1,588
	6,457	7,542	6,644	**6,125**	7,538	5,803

Determination of the net defined benefit asset/liability

The table provides the key assumptions used in the determination of the Net defined benefit asset/liability and the Other post-employment benefits.

Weighted averages of basic actuarial assumptions in annual % as at 31 December

	Net defined benefit asset/liability			Other post-employment benefits		
	2013	2012	2011	**2013**	2012	2011
Discount rates	**3.70**	3.80	5.30	**2.80**	2.30	4.10
Mortality rates	**0.80**	0.80	1.00	**0.80**	0.80	1.00
Expected rates of salary increases (excluding promotion increases)	**2.00**	2.50	2.50	**2.00**	2.00	2.00
Indexation	**2.00**	1.90	1.80	**2.00**	2.00	2.00

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors and other adjustments reflect country-specific conditions.

The discount rate is the weighted average of the discount rates that are applied in different regions where NN Group has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate.

Notes to the Consolidated annual accounts of NN Group continued

The discount rate is approximately 3.7% on 31 December 2013 (2012: 3.8%). As disclosed in the 2012 Annual Accounts, discussions were ongoing, both in the industry and at the IASB, on the definition of the discount rate for defined benefit pension liabilities and NN Group would reconsider the methodology for setting the discount rate if and when appropriate. The discount rate used by NN Group remains based on AA-rated corporate bonds. During 2013, NN Group further refined its methodology to extrapolate the observable AA-rated corporate bond rates to the full duration of the defined benefit pension liability. The refined methodology and the resulting discount rate are more in line with observed market practices. The impact of the refinement of the extrapolation was an increase in the defined benefit obligation as at 31 December 2013 of approximately EUR 1.0 billion (EUR 0.7 billion after tax); this impact was recognised in Other comprehensive income (equity) in 2013. In 2012, the discount rate changed from 5.3% in 2011 to 3.8% in 2012 resulting in an increase of the defined benefit obligation of approximately EUR 2 billion.

On 31 December 2013, the actuarial assumption for Indexation for inflation is 2.0% (1.9% in 2012). This percentage is mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plan in the Netherlands. The best estimate assumption for future indexation was amended in 2013 to reflect the outcome of the arbitration in respect of the 2013 indexation as disclosed in Note 48 “Legal proceedings”.

Sensitivity analysis of key assumptions

The sensitivity analysis of the most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

The table discloses the financial impact on the defined benefit obligation if the weighted averages of each significant actuarial assumption would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the consumptions may be correlated.

Sensitivity analysis – financial impact of changes in significant actuarial assumptions on the defined benefit obligation

2013	Financial impact of increase	Financial impact of decrease
Discount rates – increase/ decrease of 1%	–280	299
Mortality – increase/ decrease of 1 year	205	–211
Expected rates of salary increases (excluding promotion increases) – increase/ decrease of 0.25%	48	–41
Indexation – increase/ decrease 0.25%	256	–242

Expected cash flows

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels. NN Group’s subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis.

For 2014 the expected contributions to pension plans are EUR 46 million.

The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the plan:

Benefit payments

	Defined benefit obli-gation	Other post-employ-ment benefits
2014	150	2
2015	154	2
2016	162	2
2017	171	2
2018	181	2
Years 2019 – 2023	1,064	12

The average duration of the benefit obligation at the end of the reporting period is 20 years (2012: 20 years). This number can be subdivided into the duration related to:

- active members: 26 years (2012: 27 years);
- inactive members: 23 years (2012: 24 years); and
- retired members: 11 years (2012: 11 years).

The Sensitivity analysis of key assumptions and Expected cash flows presented above does not take into consideration the subsequent event that was announced in February 2014 with regard to the transfer of all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. Reference is made to Note 55 "Subsequent events" for information on this agreement.

Profit and loss account

Pension and other staff-related benefit costs

	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Current service cost	**90**	76	81	**–7**	7	5				**83**	83	86
Past service cost			1							**0**	0	1
Net interest cost	**–26**	–93	–47							**–26**	–93	–47
Effect of curtailment or settlement	**–3**	–133								**–3**	–133	0
Other	**–1**				2	1	**–1**	26	–2	**–2**	28	–1
Defined benefit plans	**60**	–150	35	**–7**	9	6	**–1**	26	–2	**52**	–115	39
Defined contribution plans										**7**	4	
										59	–111	39

Defined contribution plans

Certain group companies sponsor defined contribution pension plans. The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities.

Additional information on the closed defined benefit plan in the Netherlands

The largest defined benefit plan is in the Netherlands (94% of the total defined benefit obligation). The defined benefit plan is administered by a fund (PFI) that is legally separated from NN Group. The board of the pension fund is required by law or by articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees and the employer. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund, including the asset-liability matching strategies of the plan. The plan in the Netherlands typically exposes NN Group to risks such as: investment risk, interest rate risk and longevity risk. The primary financial objective of the plan in the Netherlands is to secure accumulated participant retirement benefits.

Since the plan will be closed for new pension accruals as of 1 January 2014, no premiums will be paid into the plan. However, ING decides annually whether or not to grant a lump sum payment for indexation of the accrued pensions.

When the coverage ratio (assets divided by liabilities) of the plan is lower than 105% at year end, ING is required to pay the plan an additional contribution in order to increase the coverage ratio to 106.7%. When the coverage ratio of the plan is lower than 110% but higher than 105% at year end, ING is required to pay the plan an additional contribution in accordance with a pre-defined formula. When the coverage ratio is higher than 140%, ING receives a premium reduction in future periods.

In February 2014, ING reached an agreement with the various stakeholders to transfer all future funding and indexation obligations under the current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement will make the Dutch ING Pension Fund financially independent.

This agreement will result in the removal of the net pension asset related to the Dutch defined benefit pension plan from the Consolidated balance sheet. Reference is made to Note 55 "Subsequent events" for information on this agreement.

Notes to the Consolidated annual accounts of NN Group continued

Defined benefit plan in the Netherlands – Major categories of plan assets

	Fair value of plan assets								
	Quoted price			Other			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Investment portfolio of the pension fund									
Debt securities (fixed income investments):									
– Governments bonds	**2,985**	2,652	2,174				**2,985**	2,652	2,174
– Corporate bonds	**461**	462	440				**461**	462	440
– Other bonds (developing markets)	**298**	379	283				**298**	379	283
Total fixed income investments	**3,744**	3,493	2,897	**0**	0	0	**3,744**	3,493	2,897
Equity security investments:									
– Equity securities in developed markets	**1,144**	1,066	1,313				**1,144**	1,066	1,313
– Equity securities in developing markets	**334**	370					**334**	370	0
Total equity security investments	**1,478**	1,436	1,313	**0**	0	0	**1,478**	1,436	1,313
Real estate investments:									
– Listed	**55**	66	55				**55**	66	55
– Not listed				**277**	282	269	**277**	282	269
Total real estate investments	**55**	66	55	**277**	282	269	**332**	348	324
Alternative investments:									
– Private equity				**115**	104	81	**115**	104	81
– Hedge funds				**56**	51	88	**56**	51	88
– Commodities					65	94		65	94
Total alternative investments	**0**	0	0	**171**	220	263	**171**	220	263
Other assets and liabilities (accrued interest)				**84**	28	38	**84**	28	38
Derivatives (1)	**181**	442	427				**181**	442	427
Cash and cash equivalents				**145**	47	19	**145**	47	19
Total Assets of the pension fund	**5,458**	5,437	4,692	**677**	577	589	**6,135**	6,014	5,281

(1) Derivatives are presented net.

The table above relates to the defined benefit pension plan in the Netherlands that is closed for new pension rights as of 1 January 2014.

At 31 December 2013 the defined benefit plan in the Netherlands did not hold any investments in ING Group At 31 December 2012 Debt securities included EUR 44 million (0.20% of total plan assets) of investments in ING Group and at 31 December 2011 Debt securities included EUR 14 million (0.20% of total plan assets).

39 TAXATION

Changes in deferred tax

	Net liability 2012 [1]	Change through equity	Change through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2013 [1]
Investments	3,105	**–1,775**	**–711**	**334**	**–16**	**937**
Real estate investments	347		**–22**	**–42**		**283**
Financial assets and liabilities at fair value through profit or loss	–26			**9**		**–17**
Deferred acquisition costs and VOBA	1,351	**339**	**–332**	**–893**	**–153**	**312**
Depreciation	–4		**–2**	**1**		**–5**
Insurance provisions	–3,986	**692**	**1,133**	**821**	**25**	**–1,315**
Cash flow hedges	1,183	**–279**		**15**		**919**
Pension and post-employment benefits	–222	**48**	**52**	**240**	**7**	**125**
Other provisions	38		**2**	**2**		**42**
Receivables	–39		**3**	**9**	**–3**	**–30**
Loans and advances to customers	16		**–3**	**–12**		**1**
Unused tax losses carried forward	–682		**161**	**–16**	**2**	**–535**
Other	63	**–46**	**–10**	**–98**	**25**	**–66**
	1,144	**–1,021**	**271**	**370**	**–113**	**651**
Presented in the balance sheet as:						
– deferred tax liabilities	1,220					**702**
– deferred tax assets	–76					**–51**
	1,144					**651**

[1] + = liabilities, – = assets

In 2013, Changes in the composition of the group and other changes includes EUR 158 million as a result of the transfer of ING U.S. and EUR 551 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Notes to the Consolidated annual accounts of NN Group continued

Changes in deferred tax

	Net liability 2011 (1)	Change through equity	Change through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2012 (1)
Investments	1,736	1,978	–79	–480	–50	3,105
Real estate investments	378		–23	–8		347
Financial assets and liabilities at fair value through profit or loss	–20			–5	–1	–26
Deferred acquisition costs and VOBA	2,731	–147	166	–1,301	–98	1,351
Depreciation			–4			–4
Insurance provisions	–3,350	–803	–293	408	52	–3,986
Cash flow hedges	955	235		–7		1,183
Pension and post-employment benefits	18	–320	31	39	10	–222
Other provisions	–161		317	–134	16	38
Receivables	–31		1	–8	–1	–39
Loans and advances to customers	14		–2	3	1	16
Unused tax losses carried forward	–674		–48	36	4	–682
Other	61	9	–135	111	17	63
	1,657	952	–69	–1,346	–50	1,144
Presented in the balance sheet as:						
– deferred tax liabilities	1,843					1,220
– deferred tax assets	–186					–76
	1,657					1,144

(1) + = liabilities, – = assets

In 2012, "Changes in the composition of the group and other changes" related mainly to the classification of the insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 "Assets and liabilities held for sale".

Changes in deferred tax

	Net liability 2010 (1)	Change through equity	Change through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2011 (1)
Investments	–13	1,267	469	–62	75	1,736
Real estate investments	383		–10	5		378
Financial assets and liabilities at fair value through profit or loss	24		–13	–30	–1	–20
Deferred acquisition costs and VOBA	3,111	–272	–194	–45	131	2,731
Fiscal equalisation reserve	1		–1			0
Depreciation	–2		2			0
Insurance provisions	–1,866	–572	–773	–9	–130	–3,350
Cash flow hedges	485	468			2	955
Pension and post-employment benefits	83	137	31	–218	–15	18
Other provisions	–597		423	3	10	–161
Receivables	–28			–4	1	–31
Loans and advances to customers	11		4		–1	14
Unused tax losses carried forward	–670		20	–15	–9	–674
Other	96		–24	5	–16	61
	1,018	1,028	–66	–370	47	1,657
Presented in the balance sheet as:						
– deferred tax liabilities	1,197					1,843
– deferred tax assets	–179					–186
	1,018					1,657

(1) + = liabilities, – = assets

Deferred tax in connection with unused tax losses carried forward

	2013	2012	2011
Total unused tax losses carried forward	**2,313**	4,753	5,919
Unused tax losses carried forward not recognised as a deferred tax asset	**–165**	–2,231	–3,647
Unused tax losses carried forward recognised as a deferred tax asset	**2,148**	2,522	2,272
Average tax rate	**24.9%**	27.0%	29.7%
Deferred tax asset	**535**	682	674

The following tax losses carried forward and tax credits will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised			Deferred tax asset recognised		
	2013	2012	2011	2013	2012	2011
Within 1 year	**1**	19	11	**11**	15	40
More than 1 year but less than 5 years	**123**	132	229	**9**	166	404
More than 5 years but less than 10 years	**27**	111	507	**1,313**	2,113	1,075
More than 10 years but less than 20 years		1,969	2,885	**295**		192
Unlimited	**14**		15	**520**	228	561
	165	2,231	3,647	**2,148**	2,522	2,272

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

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current year or the preceding year. The aggregate amount for the most significant entities to which this applies is EUR 94 million (2012: EUR 129 million; 2011: EUR 209 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction

	2013	2012	2011
United States			120
Belgium	**39**	73	70
Spain	**55**	56	19
	94	129	209

Recognition is based on the fact that it is probable that the entity will have taxable profits and /or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

As at 31 December 2013, 31 December 2012 and 31 December 2011, NN Group had no significant temporary differences associated with the parent company’s investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Profit and loss account

Taxation on continuing operations by type

	Netherlands			International			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Current tax	**64**	–99	31	**–21**	111	69	**43**	12	100
Deferred tax	**–168**	–135	–38	**75**	10	–47	**–93**	–125	–85
	–104	–234	–7	**54**	121	22	**–50**	–113	15

Notes to the Consolidated annual accounts of NN Group continued

The 2013 taxation in the Netherlands changed with EUR 130 million to EUR –104 million from EUR –234 million in the previous year mainly caused by higher result before tax compared with 2012. Also, the higher result before tax in 2013 was comprised of lower non-taxable profit items compared with 2012.

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

	2013	2012	2011
Result before tax from continuing operations	**–52**	–245	468
Weighted average statutory tax rate	**45.6%**	–22.1%	23.9%
Weighted average statutory tax amount	**–24**	54	112
Associates exemption	**–89**	–161	–121
Other income not subject to tax	**–31**	–34	–34
Expenses not deductible for tax purposes	**41**	32	46
Impact on deferred tax from change in tax rates	**22**	11	2
Deferred tax benefit from previously unrecognised amounts	**–2**	–6	
Current tax benefit from previously unrecognised amounts		–7	
Write-off/reversal of deferred tax assets	**6**		
Adjustments to prior periods	**27**	–2	10
Effective tax amount	**–50**	–113	15
Effective tax rate	**98.1%**	46,7%	3,2%

The weighted average statutory tax rate in 2013 differs significantly compared with 2012. This is mainly a result of the composition of the result before tax from continuing operations in 2013 and 2012.

The weighted average statutory tax rate in 2012 differs significantly from 2011. This is mainly a result of the composition of the result before tax from continuing operations in 2012 and 2011. In 2012 relatively more profits were taxable in countries with high rates while relatively more losses were incurred in countries with lower tax rates.

The effective tax rate in 2013 was higher (favourable in a tax loss situation) than the weighted average statutory tax rate. This is mainly caused by non-taxable income which is only partly offset by non-deductible expenses, tax rate changes and prior year adjustments.

The effective tax rate in 2012 was higher (favourable in a tax loss situation) than the negative weighted average statutory tax rate. This is mainly caused by non-taxable income which is only partly offset by non-deductible expenses.

The effective tax rate in 2011 was lower than the weighted average statutory tax rate. This was mainly caused by exempt income which is only partly offset by non-deductible expenses.

Adjustment to prior periods in 2013 relates to a true up of the tax position in the Netherlands.

Adjustment to prior periods in 2011 related mainly to final tax assessments.

Comprehensive income

Income tax related to components of other comprehensive income

	2013	2012	2011
Remeasurement of the net defined benefit asset/liability	**–48**	322	–137
Unrealised revaluations property in own use		4	
Unrealised revaluations available-for-sale investments and other	**1,648**	–1,904	–1,148
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**17**	–36	–102
Changes in cash flow hedge reserve	**275**	–236	–467
Transfer to insurance liabilities/DAC	**–879**	911	847
Exchange rate differences and other changes		–82	–1
Total income tax related to components of other comprehensive income	**1,013**	–1,021	–1,008

40 FAIR VALUE OF ASSETS AND LIABILITIES

FINANCIAL ASSETS AND LIABILITIES

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

Fair value of financial assets and liabilities

	Estimated fair value			Balance sheet value		
	2013	2012	2011	**2013**	2012	2011
Financial assets						
Cash and cash equivalents	**7,155**	5,389	11,577	**7,155**	5,389	11,577
Financial assets at fair value through profit or loss:						
– trading assets	**736**	586	534	**736**	586	534
– investments for risk of policyholders	**39,589**	98,765	116,438	**39,589**	98,765	116,438
– non-trading derivatives	**3,126**	5,107	7,285	**3,126**	5,107	7,285
– designated as at fair value through profit or loss	**482**	2,000	2,616	**482**	2,000	2,616
Available-for-sale investments	**61,014**	119,305	133,604	**61,014**	119,305	133,604
Loans and advances to customers	**26,114**	26,873	33,385	**25,319**	25,823	32,928
Other assets (1)	**3,180**	6,177	7,819	**3,180**	6,177	7,819
	141,396	264,202	313,258	**140,601**	263,152	312,801
Financial liabilities						
Subordinated loans	**2,928**	2,894	4,098	**2,892**	2,947	4,367
Debt securities in issue		2,082	3,480		1,910	3,436
Other borrowed funds	**4,817**	7,458	7,312	**4,817**	7,442	7,307
Investment contracts for risk of company	**795**	4,624	6,717	**810**	4,561	6,259
Investment contracts for risk of policyholders	**1,588**	8,067	6,939	**1,588**	8,067	6,939
Customer deposits and other funds on deposit	**5,764**			**5,769**		
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	**1,843**	3,258	4,404	**1,843**	3,258	4,404
Other liabilities (2)	**2,701**	8,133	10,324	**2,701**	8,133	10,324
	20,436	36,516	43,274	**20,420**	36,318	43,036

(1) Other assets does not include (deferred) tax assets, net defined benefit assets and property development and obtained from foreclosures.

(2) Other liabilities does not include (deferred) tax liabilities, net defined benefit liabilities, insurance provisions, other provisions and other taxation and social security contributions.

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date ("exit price"). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors, especially for inputs that are not readily available in the market (such as credit spreads for own-originated loans and advances to customers). Changes in these assumptions could significantly affect the estimated fair value. Consequently, the fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

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

Financial assets

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value that approximates its fair value.

Financial assets at fair value through profit or loss and Available-for-sale Investments

Derivatives

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

Equity securities

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

Debt securities

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

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair value of mortgage loans is estimated by taking into account prepayment behaviour and discounting future cash flows using interest rates currently being offered for similar loans to borrowers with similar credit ratings. The fair value of fixed rate policy loans is estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for calculations purposes. The book values of variable rate policy loans approximate their fair value.

Other assets

The other assets are stated at their carrying value which is not significantly different from their fair value.

Financial Liabilities

Subordinated loans

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

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

Financial liabilities at fair value through profit or loss
The fair value of securities in the trading portfolio and other liabilities at fair value through profit or loss is based on quoted market prices, where available. For those securities not actively traded, fair value is estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit or loss above.

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

Other liabilities
The other liabilities are stated at their carrying value which is not significantly different from their fair value.

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

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

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

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

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

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Level 3 – Valuation technique supported by unobservable inputs

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

The fair value of the financial instruments carried at fair value was determined as follows:

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

2013	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	13	3	720	736
Investments for risk of policyholders	38,228	1,113	248	39,589
Non-trading derivatives	3	3,123		3,126
Financial assets designated as at fair value through profit or loss	450	32		482
Available-for-sale investments	47,916	10,989	2,109	61,014
	86,610	15,260	3,077	104,947
Financial liabilities				
Non-trading derivatives	114	1,729		1,843
Investment contracts (for contracts at fair value)	1,588			1,588
	1,702	1,729	0	3,431

Main changes in fair value hierarchy in 2013

There were no significant transfers between Level 1 and 2.

The decrease in Available-for-sale investments (level 2) and in level 3 financial liabilities reflects the transfer of ING U.S. Reference is made to Note 53 "Other events".

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

2012	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	43	24	519	586
Investments for risk of policyholders	92,632	5,983	150	98,765
Non-trading derivatives	19	5,031	57	5,107
Financial assets designated as at fair value through profit or loss	70	1,037	893	2,000
Available-for-sale investments	59,737	56,671	2,897	119,305
	152,501	68,746	4,516	225,763
Financial liabilities				
Non-trading derivatives	171	1,901	1,186	3,258
Investment contracts (for contracts at fair value)	3,716	4,339	12	8,067
	3,887	6,240	1,198	11,325

Main changes in fair value hierarchy in 2012

There were no significant transfers between Level 1 and 2.

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

2011	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	47	84	403	534
Investments for risk of policyholders	111,203	5,094	141	116,438
Non-trading derivatives	1,430	5,690	165	7,285
Financial assets designated as at fair value through profit or loss	43	1,150	1,423	2,616
Available-for-sale investments	71,327	58,804	3,473	133,604
	184,050	70,822	5,605	260,477
Financial liabilities				
Non-trading derivatives	1,017	2,071	1,316	4,404
Investment contracts (for contracts at fair value)	3,279	3,648	12	6,939
	4,296	5,719	1,328	11,343

Main changes in fair value hierarchy in 2011

The classification was impacted in 2011 by a transfer of available-for-sale investments of EUR 2.0 billion from Level 3 to Level 2, relating to mortgage backed securities in the United States. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2011 prices supported by market observable inputs became available and were used in determining the fair value.

There were no significant transfers between Level 1 and 2.

Level 3 Financial assets and liabilities

Financial assets measured at fair value in the balance sheet as at 31 December 2013 of EUR 104.9 billion include an amount of EUR 3.1 billion (3.0%) that is classified as Level 3 (31 December 2012: EUR 4.5 billion (2.0%); 31 December 2011: EUR 5.6 billion (2.1%). Changes in Level 3 are disclosed below in the table “Changes in Level 3 Assets”.

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

Of the total amount of financial assets classified as Level 3 as at 31 December 2013 of EUR 3.1 billion, an amount of EUR 2.4 billion is based on unadjusted quoted prices in inactive markets. This includes for example debt securities and shares in real estate investment funds and private equity investment funds for which the fair value is determined using quoted prices for the securities or quoted prices obtained from the asset managers of the funds. As ING does generally not adjust quoted prices using its own inputs, there is no significant sensitivity to ING’s own unobservable inputs.

The remaining EUR 0.7 billion Level 3 financial assets are private equity investments that are recognised at fair value. Fair value is determined using both market-based and investment-specific inputs. In the absence of an active market, fair values are estimated on the basis of the analysis of the invested companies’ financial position, future prospects and other factors, considering valuations of similar positions and other market information. Given the bespoke nature of the analysis in respect of most significant positions, it is not practical to quote a range of key unobservable inputs or provide a sensitivity analysis on such unobservable inputs.

Notes to the Consolidated annual accounts of NN Group continued

Changes in Level 3 Financial assets

2013	**Trading assets**	**Invest-ment for risk of policy-holders**	**Non-trading derivatives**	**Financial assets desig-nated as at fair value through profit or loss**	**Available-for-sale invest-ments**	**Total**
Opening balance	**519**	**150**	**57**	**893**	**2,897**	**4,516**
Amounts recognised in the profit and loss account during the year	**85**	**9**	**20**	**111**	**–114**	**111**
Revaluation recognised in equity during the year					**–44**	**–44**
Purchase of assets	**27**	**154**	**15**	**49**	**329**	**574**
Sale of assets	**–64**	**–52**	**–36**	**–124**	**–144**	**–420**
Maturity/settlement				**–67**	**–138**	**–205**
Transfers into Level 3	**27**	**2**			**81**	**110**
Transfers out of Level 3	**–20**	**–9**			**–64**	**–93**
Changes in the composition of the group and other changes	**146**	**–6**	**–56**	**–901**	**–690**	**–1,507**
Exchange rate differences				**39**	**–4**	**35**
Closing balance	**720**	**248**	**0**	**0**	**2,109**	**3,077**

In 2013, Changes in the composition of the group and other changes includes EUR –1,654 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Changes in Level 3 Financial assets

2012	Trading assets	Invest-ment for risk of policy-holders	Non-trading derivatives	Financial assets desig-nated as at fair value through profit or loss	Available-for-sale invest-ments	Total
Opening balance	403	141	165	1,423	3,473	5,605
Amounts recognised in the profit and loss account during the year	43	2	–91	–56	–74	–176
Revaluation recognised in equity during the year					–16	–16
Purchase of assets	6	83	19	123	218	449
Sale of assets	–4	–15	–11	–664	–80	–774
Maturity/settlement					–360	–360
Transfers into Level 3	107	67			199	373
Transfers out of Level 3	–39	–6	–23		–201	–269
Changes in the composition of the group and other changes	3	–116		84	–244	–273
Exchange rate differences		–6	–2	–17	–18	–43
Closing balance	519	150	57	893	2,897	4,516

Changes in Level 3 Financial assets

2011	Trading assets	Invest-ment for risk of policy-holders	Non-trading derivatives	Financial assets desig-nated as at fair value through profit or loss	Available-for-sale invest-ments	Total
Opening balance	464	136	145	1,293	3,506	5,544
Amounts recognised in the profit and loss account during the year	–20		53	38	–117	–46
Revaluation recognised in equity during the year					48	48
Purchase of assets	35	123	41	208	517	924
Sale of assets	–21	–99	–82	–184	–261	–647
Maturity/settlement					–405	–405
Transfers into Level 3		4			729	733
Transfers out of Level 3	–55	–6			–2,045	–2,106
Changes in the composition of the group and other changes				9	1,537	1,546
Exchange rate differences		–17	8	59	–36	14
Closing balance	403	141	165	1,423	3,473	5,605

Changes in the composition of the group and other changes includes the increase of the Level 3 assets in relation to shares in real estate investment funds; this increase includes mainly the reclassification of associates to available-for-sale investments as disclosed in Note 6 “Investments in associates”, as well as the reclassification of equity securities in certain real estate companies into Level 3.

Transfers into Level 3 includes certain bonds which were transferred to Level 3 in 2011 as a result of reduced market liquidity and/or pricing sources that could no longer be classified as market observable.

Changes in Level 3 Financial liabilities

2013	**Non-trading derivatives**	**Invest-ment contracts (for contracts at fair value)**	**Total**
Opening balance	**1,186**	**12**	**1,198**
Amounts recognised in the profit and loss account during the year	**65**		**65**
Issue of liabilities		**7**	**7**
Early repayment of liabilities		**–8**	**–8**
Transfers into Level 3		**2**	**2**
Transfers out of Level 3		**–8**	**–8**
Changes in the composition of the group and other changes	**–1,244**	**–5**	**–1,249**
Exchange rate differences	**–7**		**–7**
Closing balance	**0**	**0**	**0**

In 2013, Changes in the composition of the group and other changes includes EUR –1,250 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Notes to the Consolidated annual accounts of NN Group continued

Changes in Level 3 Financial liabilities

2012	Non-trading derivatives	Investment contracts (for contracts at fair value)	Total
Opening balance	1,316	12	1,328
Amounts recognised in the profit and loss account during the year	–54		–54
Issue of liabilities	–1	12	11
Early repayment of liabilities	–34	–6	–40
Transfers out of Level 3	–19	–6	–25
Exchange rate differences	–22		–22
Closing balance	1,186	12	1,198

Changes in Level 3 Financial liabilities

2011	Non-trading derivatives	Investment contracts (for contracts at fair value)	Total
Opening balance	1,142	17	1,159
Amounts recognised in the profit and loss account during the year	128		128
Issue of liabilities		7	7
Early repayment of liabilities	–2	–3	–5
Transfers out of Level 3		–9	–9
Changes in the composition of the group and other changes	–16		–16
Exchange rate differences	64		64
Closing balance	1,316	12	1,328

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

2013	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Financial assets			
Trading assets	**97**	**–12**	**85**
Investments for risk of policyholders	**11**	**–2**	**9**
Non-trading derivatives	**–9**	**29**	**20**
Financial assets designated as at fair value through profit or loss	**23**	**88**	**111**
Available-for-sale investments	**–116**	**2**	**–114**
	6	**105**	**111**
Financial liabilities			
Non-trading derivatives	**65**		**65**
	65	**0**	**65**

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

2012	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	42	1	43
Investments for risk of policyholders	3	–1	2
Non-trading derivatives	–97	6	–91
Financial assets designated as at fair value through profit or loss	–14	–42	–56
Available-for-sale investments	–82	8	–74
	–148	–28	–176
Financial liabilities			
Non-trading derivatives	–58	4	–54
	–58	4	–54

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

2011	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	–21	1	–20
Non-trading derivatives	50	3	53
Financial assets designated as at fair value through profit or loss	38		38
Available-for-sale investments	–35	–82	–117
	32	–78	–46
Financial liabilities			
Non-trading derivatives	139	–11	128
	139	–11	128

Recognition of unrealised gains and losses in Level 3

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

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

Unrealised gains and losses that relate to Available-for-sale investments are recognised in Other comprehensive income and included in Reserves in the line Unrealised revaluations available-for-sale investments.

Fair value of the financial instruments carried at amortised cost

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

Notes to the Consolidated annual accounts of NN Group continued

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

2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	7,155			7,155
Loans and advances to customers	9	1,893	24,212	26,114
	7,164	1,893	24,212	33,269
Financial liabilities				
Subordinated loans			2,928	2,928
Other borrowed funds	456	2,632	1,729	4,817
Investment contracts for risk of company	20		775	795
Investment contracts for risk of policyholders	1,588			1,588
Customer deposits and other funds on deposit		5,764		5,764
	2,064	8,396	5,432	15,892

Asset backed security portfolio

Fair value hierarchy of certain ABS bonds

2013	Level 1	Level 2	Level 3	Total
US Alt-A RMBS		5		5
CDO/CLOs			39	39
CMBS			11	11
Total certain ABS	0	5	50	55

Fair value hierarchy of certain ABS bonds

2012	Level 1	Level 2	Level 3	Total
US Subprime RMBS		733		733
US Alt-A RMBS		284		284
CDO/CLOs			129	129
CMBS		3,750		3,750
Total certain ABS	0	4,767	129	4,896

Fair value hierarchy of certain ABS bonds

2011	Level 1	Level 2	Level 3	Total
US Subprime RMBS		752		752
US Alt-A RMBS		293	2	295
CDO/CLOs		30	153	183
CMBS		4,139	5	4,144
Total certain ABS	0	5,214	160	5,374

Greece, Italy, Ireland, Portugal and Spain

Of the Government and Unsecured Financial institutions’ bond exposure in Greece, Italy, Ireland, Portugal and Spain as disclosed in Note 4 “Available-for-sale investments”, EUR 2.7 billion (2012: EUR 2.6 billion; 2011: EUR 2.6 billion) is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provides the fair value hierarchy for the Greek, Italian, Irish, Portuguese and Spanish Government and Unsecured Financial institutions’ bond exposure measured at fair value.

Notes to the Consolidated annual accounts of NN Group continued

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Greece				
Government bonds available-for-sale	**105**			**105**
Italy				
Government bonds available-for-sale	**1,391**			**1,391**
Financial institutions available-for-sale	**55**			**55**
Ireland				
Government bonds available-for-sale	**59**			**59**
Portugal				
Government bonds available-for-sale	**4**			**4**
Financial institutions available-for-sale		**27**		**27**
Spain				
Government bonds available-for-sale	**1,012**			**1,012**
Financial institutions available-for-sale	**22**	**57**		**79**
Total	**2,648**	**84**	**0**	**2,732**

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2012	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale	76			76
Italy				
Government bonds available-for-sale	1,347	30		1,377
Financial institutions available-for-sale	51			51
Ireland				
Government bonds available-for-sale	55			55
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	7			7
Financial institutions available-for-sale	18	22		40
Spain				
Government bonds available–for-sale	872			872
Financial institutions available-for-sale	96			96
Total	2,537	52	0	2,589

Classification of bonds in Level 2 is mainly a result of low trading liquidity in the relevant markets.

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2011	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale		104		104
Italy				
Government bonds available-for-sale	1,207			1,207
Financial institutions available-for-sale	83			83
Ireland				
Government bonds available-for-sale	43			43
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	95			95
Financial institutions available-for-sale	30	17		47
Spain				
Government bonds available–for-sale	866			866
Financial institutions available-for-sale	163			163
Total	2,502	121	0	2,623

NON-FINANCIAL ASSETS AND LIABILITIES

In addition to financial assets and liabilities, the following table presents the estimated fair value of NN Group's non-financial assets and liabilities that are measured at fair value in the balance sheet. Reference is made to Note 1 "Accounting policies" in the sections "Real estate investments" and "Property in own use" for the methods and assumptions used by NN Group to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

2013	Esti-mated fair value	Balance sheet value
Real estate investments	764	764
Property in own use	100	100
	864	864

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

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

2013	Level 1	Level 2	Level 3	Total
Real estate investments			764	764
Property in own use			100	100
	0	0	864	864

Level 3 Non-financial assets

Changes in Level 3 non-financial assets

2013	Real estate invest-ments	Property in own use
Opening balance	798	114
Amounts recognised in the profit and loss account during the year	–5	–14
Purchase of assets	200	
Sale of assets	–229	
Closing balance	764	100

Amounts recognised in the p&l account during the year (Level 3) non-financial assets

2013	Held at balance sheet date	Derecog-nised during the year	Total
Real estate investments	–25	20	–5
Property in own use	–14		–14
	–39	20	–19

41 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the "Risk management" section, NN Group uses derivatives (principally interest rate swaps and cross currency interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The impact of NN Group's hedging activities is to optimise the overall cost to NN Group of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and reported in accordance with the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: fair value hedge accounting, cash flow hedge accounting and net investment hedge accounting. These are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in Note 1 "Accounting policies" in the section on "Principles of valuation and determination of results".

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

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

Fair value hedge accounting
NN Group’s fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

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

For the year ended 31 December 2013, NN Group recognised EUR –6 million (2012: EUR 6 million; 2011: EUR –3 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 3 million (2012: EUR –6 million; 2011: EUR 3 million) fair value changes recognised on hedged items. This resulted in EUR –3 million (2012: nil; 2011: nil) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2013, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR 1 million (2012: EUR –203 million; 2011: EUR –264 million), presented in the balance sheet as EUR 1 million (2012: nil; 2011: nil) positive fair value under assets and nil (2012: EUR 203 million; 2011: EUR 264 million) negative fair value under liabilities.

Cash flow hedge accounting
NN Group’s cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults.

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

For the year ended 31 December 2013, NN Group recognised EUR –832 million (2012 EUR 665 million; 2011: EUR 1,316 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2013 is EUR 3,644 million (2012: EUR 4,736 million; 2011: EUR 3,835 million) gross and EUR 2,726 million (2012: EUR 3,548 million; 2011: EUR 2,883 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 44 years with the largest concentrations in the range of 1 year to 8 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 50 million income (2012: EUR 13 million loss; 2011: EUR 16 million loss) which was recognised in the profit and loss account.

As at 31 December 2013, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 1,218 million (2012: EUR 2,195 million; 2011: EUR 2,270 million), presented in the balance sheet as EUR 1,433 million (2012: EUR 2,450 million; 2011: EUR 2,572 million) positive fair value under assets and EUR 215 million (2012: EUR 255 million; 2011: EUR 302 million) negative fair value under liabilities.

As at 31 December 2013 and 31 December 2012, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and Interest expense on non-trading derivatives is EUR 280 million (2012: EUR 300 million; 2011: EUR 329 million) and EUR 35 million (2012: EUR 82 million; 2011: EUR 114 million), respectively, relating to derivatives used in cash flow hedges.

Hedges of net investments in foreign operations

NN Group’s net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholder’s equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

As at 31 December 2013, the fair value of outstanding derivatives designated under net investment hedge accounting was EUR –8 million (2012: EUR 2 million; 2011: EUR –7 million), presented in the balance sheet as nil (2012: EUR 2 million; 2011: EUR 5 million) positive fair value under assets and EUR 8 million (2012: nil; 2011: EUR 12 million) negative fair value under liabilities.

As at 31 December 2013, the fair value of outstanding non-derivatives designated under net investment hedge accounting was nil (2012: EUR –1,416 million; 2011: EUR –1,515 million), presented in the balance sheet as negative fair value under liabilities. Non-derivatives designated as hedging instruments consist mainly of loan agreements.

There was no accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2013, 2012 and 2011 on derivatives and non-derivatives designated under net investment hedge accounting.

42 ASSETS BY CONTRACTUAL MATURITY

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

Assets by contractual maturity

2013	Less than 1 month (1)	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	7,155						7,155
Financial assets at fair value through profit or loss:							
– trading assets						736	736
– investments for risk of policyholders (2)						39,589	39,589
– non-trading derivatives	44	12	24	1,019	2,032	–5	3,126
– designated as at fair value through profit or loss	401		42	13		26	482
Available-for-sale investments	353	422	1,834	10,383	42,402	5,620	61,014
Loans and advances to customers	417	524	1,774	4,651	17,746	207	25,319
Reinsurance contracts	10	24	30	10	79	99	252
Intangible assets	3	7	14	81	4	283	392
Deferred acquisition costs	20	17	91	198	1,027		1,353
Assets held for sale (3)	58		572				630
Other assets	1,234	554	988	385	573	20	3,754
Remaining assets (for which maturities are not applicable) (4)						1,956	1,956
Total assets	9,695	1,560	5,369	16,740	63,863	48,531	145,758

(1) Includes assets on demand.

(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 “Assets and liabilities held for sale”. For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in “maturity not applicable”.

(4) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the Consolidated annual accounts of NN Group continued

Assets by contractual maturity

2012	Less than 1 month (1)	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	5,389						5,389
Financial assets at fair value through profit or loss:							
– trading assets				4		582	586
– investments for risk of policyholders (2)						98,765	98,765
– non-trading derivatives	129	120	214	1,430	3,214		5,107
– designated as at fair value through profit or loss		13	34	242	605	1,106	2,000
Available-for-sale investments	682	1,081	8,137	20,931	72,206	16,268	119,305
Loans and advances to customers	439	157	1,633	2,370	19,282	1,942	25,823
Reinsurance contracts	19	49	281	1,277	1,992	1,672	5,290
Intangible assets	2	5	37	159	44	771	1,018
Deferred acquisition costs	19	18	77	158	316	3,961	4,549
Assets held for sale (3)		5,553				56,138	61,691
Other assets	1,991	577	1,186	2,037	612	332	6,735
Remaining assets (for which maturities are not applicable) (4)						2,495	2,495
Total assets	8,670	7,573	11,599	28,608	98,271	184,032	339,753

(1) Includes assets on demand.

(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 "Assets and liabilities held for sale". For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in "maturity not applicable".

(4) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2011	Less than 1 month (1)	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	11,577						11,577
Financial assets at fair value through profit or loss:							
– trading assets			6	24	19	485	534
– investments for risk of policyholders (2)						116,438	116,438
– non-trading derivatives	282	304	755	1,600	4,344		7,285
– designated as at fair value through profit or loss			25	191	660	1,740	2,616
Available-for-sale investments	464	1,066	6,580	26,498	79,434	19,562	133,604
Loans and advances to customers	1,166	2,114	2,035	3,008	20,458	4,147	32,928
Reinsurance contracts	17	39	234	1,026	2,656	1,898	5,870
Intangible assets	4	8	81	170	166	1,543	1,972
Deferred acquisition costs	19	22	98	698	3,630	5,737	10,204
Other assets	2,316	855	2,169	2,158	1,417	495	9,410
Remaining assets (for which maturities are not applicable) (3)						2,949	2,949
Total assets	15,845	4,408	11,983	35,373	112,784	154,994	335,387

(1) Includes assets on demand.

(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

(3) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

43 LIABILITIES BY MATURITY

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

Non-financial liabilities are included based on a breakdown of the balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in the "Risk management" section for a description on how liquidity risk is managed.

Liabilities by maturity

2013	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment (1)	Total
Liabilities								
Subordinated loans	962	813	450	667				2,892
Other borrowed funds	2,731	1,001	11	155	919			4,817
Customer deposits and other funds on deposit			25	777	1,110	3,857		5,769
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	293	69	–26	–41	–2,290		3,838	1,843
Financial liabilities	3,986	1,883	460	1,558	–261	3,857	3,838	15,321
Insurance and investment contracts	806	1,115	5,486	17,586	47,038	39,520		111,551
Liabilities held for sale (2)	14		452					466
Other liabilities	1,419	–1	918	318	1,107	364		4,125
Non-financial liabilities	2,239	1,114	6,856	17,904	48,145	39,884	0	116,142
Total liabilities	6,225	2,997	7,316	19,462	47,884	43,741	3,838	131,463
Coupon interest due on financial liabilities	–1		–1	–4	–3			–9

(1) This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

(2) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 "Assets and liabilities held for sale". For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in "maturity not applicable".

Notes to the Consolidated annual accounts of NN Group continued

Liabilities by maturity

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment [1]	Total
Liabilities								
Subordinated loans					476	2,438	33	2,947
Debt securities in issue	1		799		1,116		–6	1,910
Other borrowed funds	3,476	32	1,539	969	1,426			7,442
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	292	96	313	1,289	751	1,145	–628	3,258
Financial liabilities	3,769	128	2,651	2,258	3,769	3,583	–601	15,557
Insurance and investment contracts	1,646	1,951	9,156	36,050	79,065	102,082		229,950
Liabilities held for sale [2]		4,656				50,999		55,655
Other liabilities	1,773	383	2,777	3,352	2,171	495		10,951
Non-financial liabilities	3,419	6,990	11,933	39,402	81,236	153,576	0	296,790
Total liabilities	7,188	7,118	14,584	41,660	85,005	157,159	–601	312,113
Coupon interest due on financial liabilities	10	21	42	279	578			930

[1] This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

[2] Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 “Assets and liabilities held for sale”. For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in “maturity not applicable”.

Liabilities by maturity

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment [1]	Total
Liabilities								
Subordinated loans					1,726	2,617	24	4,367
Debt securities in issue	1		847	2,107	479		2	3,436
Other borrowed funds	5,621	93	24	168	1,401			7,307
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	123	216	494	1,431	2,146	1,131	–1,137	4,404
Financial liabilities	5,745	309	1,365	3,706	5,752	3,748	–1,111	19,514
Insurance and investment contracts	2,787	1,788	10,346	39,034	105,512	119,366		278,833
Other liabilities	1,906	475	4,093	3,891	2,016	1,122		13,503
Non-financial liabilities	4,693	2,263	14,439	42,925	107,528	120,488	0	292,336
Total liabilities	10,438	2,572	15,804	46,631	113,280	124,236	–1,111	311,850
Coupon interest due on financial liabilities		35	123	286	492			936

[1] This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

44 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable relate primarily to investments of EUR 54 million (2012: EUR 238 million; 2011: EUR 251 million) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 45 “Transfer of financial assets”.

45 TRANSFER OF FINANCIAL ASSETS

The majority of NN Group's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending.

Transfer of financial assets not qualifying for derecognition

	Securities lending	
2013	**Equity**	**Debt**
Transferred assets at carrying amount		
Available-for-sale investments		**1,855**

Transfer of financial assets not qualifying for derecognition

	Securities lending	
2012	Equity	Debt
Transferred assets at carrying amount		
Available-for-sale investments		2,590

Transfer of financial assets not qualifying for derecognition

	Securities lending	
2011	Equity	Debt
Transferred assets at carrying amount		
Available-for-sale investments		8,745

In addition NN Group has entered into a sale and repurchase transaction of EUR 380 million.

The table above does not include assets transferred to consolidated securitisation entities, as the related assets remain recognised in the Consolidated balance sheet. Reference is made to Note 51 "Structured entities".

46 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

					Related amounts not offset in the balance sheet		
2013		**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**	**Financial instruments**	**Cash and financial instruments received as collateral**	**Net amount**
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Financial assets at fair value through profit or loss							
Non-trading derivatives	Derivatives	**1,971**		**1,971**	**–576**	**–1,377**	**18**
		1,971		**1,971**	**–576**	**–1,377**	**18**
Investments							
Available-for-sale	Other	**114**		**114**		**–113**	**1**
		114		**114**		**–113**	**1**
Total financial assets		**2,085**		**2,085**	**–576**	**–1,490**	**19**

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

					Related amounts not offset in the balance sheet		
2013		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Financial instruments	Cash and financial instruments pledged as collateral	Net amount
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Financial liabilities at fair value through profit or loss							
Non-trading derivatives	Derivatives	721		721	–576	–133	12
		721	0	721	–576	–133	12
Other items where offsetting is applied in the balance sheet		1,030		1,030		–1,030	0
Total financial liabilities		1,751	0	1,751	–576	–1,163	12

47 CONTINGENT LIABILITIES AND COMMITMENTS

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

Contingent liabilities and commitments

2013	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	51	134	135	253	81	29	683
Guarantees	3						3
	54	134	135	253	81	29	686

Contingent liabilities and commitments

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	556	229	134	188	68	69	1,244
Guarantees	221			6	10	1	238
	777	229	134	194	78	70	1,482

Contingent liabilities and commitments

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	1,148	158	174	227	3	115	1,825
Guarantees	250			9	10	5	274
	1,398	158	174	236	13	120	2,099

NN Group has issued certain guarantees, which are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, NN Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

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

Future rental commitments for operating lease contracts

	2013
2014	3
2015	3
2016	3
2017	3
2018	3
years after 2018	11

48 LEGAL PROCEEDINGS

NN Group companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, broker-dealers, underwriters, issuers of securities, and investors and their position as employers and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the Company's management is of the opinion that some of the proceedings set out below may have or have in the recent past had a significant effect on the financial position, profitability or reputation of the Company.

Because of the geographic spread of its business, NN Group may be subject to tax audits in numerous jurisdictions at any point in time. Although NN Group believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits may result in liabilities which are different from the amounts recognised.

Since the end of 2006, unit-linked products (commonly referred to in Dutch as “beleggingsverzekeringen”) have received negative attention in the Dutch media, from the Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 NN Group‘s Dutch insurance subsidiaries reached an outline agreement with two main consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies had a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008 costs of the settlements were valued at EUR 365 million for which adequate provisions have been established and of which a substantial portion has been paid out. The remaining unpaid part of the provision as per 31 December 2013 is solely available to cover costs relating to the settlements agreed in 2008. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations with the second main consumer protection organisation signing its agreement in June 2012. In addition, NN Group‘s Dutch insurance subsidiaries announced additional measures (flankerend beleid) that comply with the “Best in Class” criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an additional agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about the compensation. The agreements with the two consumer protection organisations are not binding on policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures offered by NN Group prevent individual policyholders from initiating legal proceedings against NN Group‘s Dutch insurance subsidiaries and making claims for damages.

In November 2013, the so-called “Vereniging Woekerpolis.nl”, an association representing the interests of policyholders, initiated a so-called “collective action”, requesting the District Court in Rotterdam to declare that NN Group‘s Dutch insurance subsidiaries sold products in the market, which are defective in various respects, (e.g. on transparency regarding cost charges and other product characteristics, and included risks for which the insurer failed to warn, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to difference in geometric versus arithmetic returns). NN Group's Dutch insurance subsidiaries have rejected these claims and will defend themselves in these proceedings.

Apart from the afore mentioned “collective action”, several other claim organisations and initiatives were established on behalf of policyholders, such as the organisation Wakkerpolis. This organisation primarily concentrates on the recovery of initial costs for policyholders, based on an interim ruling of the Dispute Committee of the Financial Services Complaints Board (KiFiD) issued on 13 May 2013 in an individual case. In this case, the KiFiD concluded that there is no contractual basis for charging initial costs (which are costs charged to the policy during a limited period of time). Apart from the initial costs, it can be derived from the interim ruling – in accordance with past rulings of the KiFiD – that an insurer is obliged to warn against the leverage and capital consumption effect (which is the effect caused by the dependency of life insurance premium on the value of the policy; the lower the value of the policy – the higher the life insurance premium). NN Group believes that this interim ruling is incorrect on several legal grounds.

In proceedings pending before the District Court in Rotterdam, the Court has upon the request of the parties, including NN Group, submitted prejudicial questions to the European Court of Justice to obtain clarity on principal legal questions with respect to cost transparency related to unit-linked policies. The main prejudicial question is whether European law allows for the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. Although the European Court does not decide on the applicable standards in specific cases, NN Group believes the ruling of the Court of Justice can give clarification on this question of legal principle which is subject of other legal proceedings in the Netherlands. It is expected that the European Court of Justice will render its judgment at the earliest in 2014.

NN Group's Dutch insurance subsidiaries have issued, sold or advised on approximately one million individual unit-linked policies. There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of these legal challenges will succeed. The financial consequences of any of the aforementioned factors or a combination thereof can be substantial for the Dutch insurance business of NN Group and may affect NN Group, both financially and reputationally. However, these consequences cannot be reliably estimated or quantified at this point.

In January 2010, ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. In its appeal, ING contested the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general. On 2 March 2012, the General Court handed down its judgment in relation to ING Group's appeal and annulled part of the EC's state aid decision. Subsequently, the EC filed an appeal against the General Court's judgment before the Court of Justice of the European Union. In parallel, the EC adopted a decision on 11 May 2012 that re-approved the state aid granted to ING Group as compatible with the internal market on the basis of ING Group's 2009 Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the 2009 Restructuring Plan.

On 24 July 2012, ING announced that the Dutch State and ING were in dialogue with the European Commission on an amended and updated Restructuring Plan to be submitted to the European Commission. However, in order to safeguard its legal rights, ING filed an appeal with the General Court of the European Union against the European Commission's decision of 11 May 2012, which re-approved ING's Restructuring Plan that ING submitted in 2009.

On November 19, 2012, ING Group and the EC announced that the EC had approved amendments to the 2009 Restructuring Plan (the "2012 Amended Restructuring Plan"). With the approval, the Commission has closed its Investigation as announced on 11 May 2012 and ING has withdrawn its appeal at the General Court of the European Union that it filed in July 2012. For principal legal reasons the European Commission will continue with its appeal against the General Court ruling of March 2012. However, the outcome of this Appeal will not affect the EC approval of the 2012 Amended Restructuring plan. It is expected that this judgment will be rendered in April 2014.

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING's decision not to provide funding for indexing pensions insured with the Dutch ING Pension Fund (Stichting Pensioenfonds ING) in 2009, 2010 and 2011. This claim was rejected by the district court of Amsterdam on 9 November 2012. An appeal was lodged against this court decision. In July 2011, also the Interest Group ING General Managers' Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING's decision not to provide funding for indexing Dutch General Managers' pensions directly insured with Nationale-Nederlanden in 2010 and 2011. This claim was rejected by the district court of Amsterdam on 22 October 2012. An appeal was lodged against this court decision. It is not feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome of these proceedings may result in liabilities and provisions for such liabilities which are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

In April 2013, the ING Pension Fund started arbitration proceedings to adjudicate a dispute with ING concerning the adjusted mortality tables used in the calculation of premiums and provisions. In 2013 ING decided to lower its contributions by 1.7% as a result of ING not accepting the adjustments made by the ING Pension Fund resulting from the mortality tables used. In February 2014 the ING Pension Fund and ING agreed that the ING Pension Fund will remain using a surcharge of 1.7% and the ING Pension Fund and ING will share the costs of the 1.7% surcharge over 2013. The payment of 50% of the surcharge 2013 by ING is included in the payment by ING of the one-time lump sum to the ING Pension Fund, which was closed for the accrual of new pension benefits as of 1 January 2014, of EUR 379 million to release ING from future financial obligations. More information is provided in Note 53 "Other events".

In July 2013, the ING Pension Fund started arbitration proceedings against ING's decision not to provide funding (for a total amount of EUR 197.5 million) for indexing pensions insured with the ING Pension Fund as of 1 January 2013. During the arbitration proceedings the ING Pension Fund added a claim in the amount of EUR 38.8 million for funding the indexation as of 1 August 2013. On 20 December 2013 the arbitrators ruled in favour of the ING Pension Fund and concluded that ING will have to provide full funding for both the indexation as of 1 January 2013 and the indexation as of 1 August 2013. The outcome of the arbitration is reflected in the 2013 Annual Accounts.

Following a recent broad industry review by the Dutch regulator DNB, Nationale-Nederlanden Schadeverzekering Maatschappij N.V. was instructed to strengthen its policies and procedures in respect of sanctions-related customer screening and related compliance matters. Nationale-Nederlanden Schadeverzekering Maatschappij N.V. is currently in the process of implementing DNB's recommendations.

49 COMPANIES AND BUSINESSES ACQUIRED AND DIVESTED

Acquisitions effective in 2013

WestlandUtrecht Bank

The partial transfer of WestlandUtrecht Bank's assets and liabilities, in which the commercial operations of WestlandUtrecht Bank have been combined with the retail banking activities of Nationale-Nederlanden, was announced in November 2012. On 1 July 2013 EUR 3.8 billion of WestlandUtrecht Bank's Dutch mortgage portfolio, EUR 0.1 billion of consumer lending and EUR 3.7 billion of Dutch savings portfolio were transferred to NN Bank. In addition approximately 400 of WestlandUtrecht Bank's employees were transferred to NN Bank. All assets and liabilities were transferred at the existing carrying value as included in ING Bank's balance sheet. This transaction was completed on 1 July 2013.

In addition, during the second half of 2013 a further amount of EUR 4.2 billion of Dutch mortgages were transferred from WestlandUtrecht Bank to NN Group. The transfers have been made at an arm's length price.

Divestments announced in 2014

The investment management business in Taiwan

On 10 January 2014, an agreement was reached to sell ING Investment Management (IM) Taiwan, the Taiwanese asset management business, to Japan-based Nomura Asset Management Co Ltd. in partnership with a group of investors. The transaction is not expected to have a significant impact on Net result. The transaction is subject to regulatory approval and expected to close in the second quarter of 2014.

Divestments in 2013

ING U.S.

In 2013, the remaining interest in its subsidiary ING U.S., Inc. ("ING U.S.") was transferred to ING Groep N.V. by way of dividend in kind. Reference is made to Note 53 "Other events" for more details on the transaction.

The insurance and investment management businesses in Asia

In 2012, the insurance and investment management businesses in Asia and the (internally) reinsured Japan SPVA business in corporate reinsurance were classified as held for sale and discontinued operations. After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that a standalone divestment of ING Life Japan, including its Corporate Owned Life Insurance (COLI) and Closed Block VA businesses, is not feasible in a manner that would appropriately meet the demands of regulators and other stakeholders in ING Group and ING Life Japan. Therefore, ING Life Japan will be included with NN Group's European insurance and investment management businesses in the base case IPO of NN Group in 2014. Various individual divestment transactions have been agreed. The specifics of these transactions are included below. The Asian insurance and investment management businesses and the (internally) reinsured Japan SPVA businesses in Corporate Reinsurance were previously included respectively in the segments Insurance Asia/Pacific, Investment Management and Other before they were classified as discontinued operations. Reference is made to Note 11 "Assets and liabilities held for sale" and Note 33 "Discontinued operations".

Joint venture China Merchants Fund

In October 2012, an agreement to sell the 33.3% interest in China Merchants Fund, an investment management joint venture, to the joint venture partners China Merchants Bank Co., Ltd., and China Merchants Securities Co., Ltd, was reached. A total cash consideration of EUR 98 million was received. The transaction realised a net gain of EUR 59 million. The transaction closed on 3 December 2013.

The insurance businesses in Hong Kong, Macau, Thailand

In October 2012, an agreement to sell the life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and the life insurance operation in Thailand to Pacific Century Group for a combined consideration of EUR 1.6 billion (USD 2.1 billion) in cash, was reached. A net gain of EUR 945 million is recognised in 2013. The transaction closed on 28 February 2013.

The investment management business in Thailand
In November 2012, an agreement to sell the investment management business in Thailand to UOB Asset Management Ltd, was reached. A total cash consideration of EUR 10 million for the investment management business in Thailand was received. The transaction closed on 3 May 2013.

The investment management business in Malaysia
In December 2012, an agreement to sell the 70% interest in ING Funds Berhad (IFB), the investment management business in Malaysia, to Kenanga Investors Berhad (Kenanga Investors), a wholly-owned subsidiary of K & N Kenanga Holdings Berhad (Kenanga), was reached. The transaction closed on 19 April 2013.

Joint venture ING Vysya Life
In January 2013, it was agreed to sell the full interest in ING Vysya Life Insurance Company Ltd. to the joint venture partner Exide Industries Ltd. The transaction resulted in a net loss of EUR 15 million for which goodwill was reduced in 2012. The transaction closed on 22 March 2013.

Joint venture KB Life
In April 2013, the 49% interest in Korean insurance venture KB Life Insurance Company Ltd. (KB Life) was agreed to be sold to joint venture partner KB Financial Group Inc. A total cash consideration of EUR 115 million (KRW 166.5 billion) was received for its 49% interest in KB Life. The transaction closed 20 June 2013.

Joint venture ING-BOB Life
In July 2013, the 50% interest in the Chinese insurance joint venture ING-BOB Life Insurance Company was agreed to be sold to BNP Paribas Cardif, the insurance arm of BNP Paribas. The transaction is not expected to have a significant impact on Net result. This transaction is subject to regulatory approvals and is expected to close in the first half of 2014.

The investment management business in South Korea
In July 2013, the investment management business in South Korea was agreed to be sold to Macquarie Group. The transaction did not have a significant impact on Net results. The transaction closed on 2 December 2013.

ING Life Korea
In August 2013, ING Life Korea, the wholly-owned life insurance business in South Korea, was agreed to be sold to MBK Partners for a total consideration of EUR 1.24 billion (KRW 1.84 trillion). Under the terms of the agreement, NN Group will continue to hold an indirect interest of approximately 10% in ING Life Korea for an amount of EUR 80 million (KRW 120 billion). ING has also reached a licensing agreement that will allow ING Life Korea to continue to operate under the ING brand for a maximum period of five years. In addition, over the course of one year, NN Group will continue to provide technical support and advice to ING Life Korea. The transaction resulted in an after tax loss of approximately EUR 1.0 billion. This transaction closed on 24 December 2013.

In addition to the above mentioned transactions, the interest in the joint venture ING Financial Services Private Limited was sold to Hathaway investments.

ING Hipotecaria
In June 2013, ING Hipotecaria, S.A. de C.V. the mortgage business in Mexico, was agreed to be sold to Banco Santander (México) S.A. This transaction resulted in a net loss of EUR 64 million which is recognised in 2013. The transaction closed on 29 November 2013.

Notes to the Consolidated annual accounts of NN Group continued

Most significant companies divested in 2013

	ING U.S. [2]	The insurance businesses in Hong Kong, Macau and Thailand	ING Life Korea	Total
Sales proceeds				
Cash proceeds [1]		1,630	1,235	2,865
Non-cash proceeds				
Sales proceeds	0	1,630	1,235	2,865
Assets				
Cash and cash equivalents	1,367	103	171	1,641
Financial assets at fair value through profit and loss	78,101	763	4,292	83,156
Available-for-sale investments	55,501	3,503	9,874	68,878
Loans and advances to customers	8,270	163	1,523	9,956
Reinsurance contracts	4,482	70	17	4,569
Real estate investments	6			6
Intangible assets	894	66	32	992
Deferred acquisition costs	4,416	601	1,848	6,865
Miscellaneous other assets	2,687	162	396	3,245
Liabilities				
Debt securities in issue	2,600			2,600
Other borrowed funds	78			78
Insurance and investment contracts	136,541	4,329	15,034	155,904
Financial liabilities at fair value through profit and loss	2,290	1	7	2,298
Miscellaneous other liabilities	4,451	230	729	5,410
Net assets	9,764	871	2,383	13,018
% divested	71	100	100	
Net assets divested	6,826	871	2,383	10,080
Gain/loss on divestment [3]	nil	944	–989	–45

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually insignificant disposals in addition to the cash flow presented.

[2] The remaining interest in ING U.S. was transferred to ING Groep N.V. by way of dividend in kind.

[3] The gain/loss on divestments comprises the sales proceeds, the net assets divested, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2012

There were no significant acquisitions in 2012.

Divestments effective in 2012

Insurance businesses in Malaysia

In October 2012, An agreement with AIA Company Ltd. to sell the insurance operations in Malaysia, which included the life insurance business, the market-leading employee benefits business and the 60% interest in ING Public Takaful Ehsan Berhad, was reached. A total cash consideration of EUR 1.3 billion was received. In December 2012, the sale was completed with a net transaction gain of EUR 745 million after tax.

Most significant companies divested in 2012

	Insurance business in Malaysia
Sales proceeds	
Cash proceeds	1,332
Sales proceeds	1,332
Assets	
Cash and cash equivalents	86
Investments	3,293
Loans and advances to customers	539
Financial assets at fair value through profit or loss	224
Real estate investments	87
Miscellaneous other assets	899
Liabilities	
Insurance and investment contracts	3,964
Miscellaneous other liabilities	512
Net assets	652
% divested	100%
Net assets divested	652
Gain on divestment (1)	745

(1) The gain on divestments comprises the sales proceeds, the net assets divested, the expenses directly related to the divestment and the realisation of unrealised reserves.

Acquisitions effective in 2011

There were no significant acquisitions in 2011.

Divestments effective in 2011

Pacific Antai Life Insurance Company Ltd.

In June 2011, the sale of the entire interest in China's Pacific Antai Life Insurance Company Ltd. (PALIC) to China Construction Bank for a consideration of EUR 82 million, and a net profit of EUR 28 million, was completed. The interest in PALIC was previously included in the former segment Insurance Asia/Pacific. The deal had been announced in 2009 and was presented as held for sale since 2009 until the sale was completed.

ING Investment Management Australia

In October 2011, the sale of ING Investment Management (ING IM) Australia to UBS AG was completed ING IM Australia's business provided a number of investment strategies and products directly to the Australian institutional and wholesale markets. ING IM Australia was previously included in the segment ING Investment Management.

Latin American pensions, life insurance and investment management operations

In December 2011 the sale of the Latin American pensions, life insurance and investment management operations ("Latin American operations") for a total consideration of EUR 2,637 million to Grupo de Inversiones Suramericana ("GRUPOSURA") was completed. The sale was the first major step in the divestment of the insurance and investment management activities. Under the terms of the agreement, EUR 2,572 million in cash was received and GRUPOSURA assumed EUR 65 million in debt. The sale resulted in a net profit of EUR 995 million. Included in the transaction were the mandatory pension and voluntary savings businesses in Chile, Colombia, Mexico, Uruguay and the 80% interest in AFP Integra S.A. in Peru; the life insurance businesses in Chile and Peru. As part of this transaction the 33.7% interest in Peruvian InVita Seguros de Vida S.A. was sold to the Wiese Family. The transaction also included the local investment management capabilities in these five countries. Not included in the transaction was the 36% interest in the leading Brazilian insurer Sul América S.A.

The Latin American operations were previously included in the segments Insurance Latin America and Investment Management before they classified as discontinued operations. The segment Insurance Latin America ceased to exist following this transaction as the majority of the assets and activities in this segment have been sold. The net result from discontinued operations was presented separately in the consolidated profit and loss account. Reference is made to Note 33 "Discontinued operations" for more detailed disclosures.

Notes to the Consolidated annual accounts of NN Group continued

Most significant companies divested in 2011

	Pacific Antai Life Insurance Company Ltd.	Latin American operations	Total
Sales proceeds			
Cash proceeds [1]	82	2,572	2,654
Non-cash proceeds		65	65
Sales proceeds	82	2,637	2,719
Assets			
Cash and cash equivalents	7	80	87
Investments	146	644	790
Loans and advances to customers	54	6	60
Financial assets at fair value through profit or loss	10	679	689
Miscellaneous other assets	48	1,491	1,539
Liabilities			
Insurance and investment contracts	205	715	920
Other borrowed funds		66	66
Miscellaneous other liabilities	14	563	577
Net assets	46	1,556	1,602
% divested	80%	Various [2]	
Net assets divested	37	1,478	1,515
Gain on divestment [3]	28	995	1,023

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually insignificant disposals in addition to the cash flow presented.

[2] Comprises various entities as explained in the description of the divestment.

[3] The gain on divestments comprises the sales proceeds, the net assets divested, the expenses directly related to the divestment and the realisation of unrealised reserves.

50 PRINCIPAL SUBSIDIARIES

For the majority of NN Group’s principal subsidiaries, NN Group N.V. has control because it either directly or indirectly owns more than half of the voting power. For each of the subsidiaries listed below, the voting rights held equal the proportion of ownership interest. For subsidiaries in which the interest held is below 50%, control exists based on the combination of NN Group’s financial interest and its rights from other contractual arrangements which result in control over the operating and financial policies of the entity.

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

Entities that are part of the insurance operations

		Proportion of ownership interest held by NN Group	
		2013	2012
Subsidiary			
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands	**100%**	100%
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands	**100%**	100%
Parcom Capital B.V.	The Netherlands	**100%**	100%
Nationale-Nederlanden Services N.V.	The Netherlands	**100%**	100%
Movir N.V.	The Netherlands	**100%**	100%
ING Re (Netherlands) N.V.	The Netherlands	**100%**	100%
Nationale-Nederlanden Bank N.V.	The Netherlands	**100%**	100%
ING Investment Management Holdings N.V.	The Netherlands	**100%**	100%
ING Pojistovna a.s.	Czech Republic	**100%**	100%
ING Životná poist’ovna a.s.	Slovakia	**100%**	100%
ING Uslugi Finansowe S.A.	Poland	**100%**	100%
ING Powszechne Towarzystwo Emerytalne S.A.	Poland	**80%**	80%
ING Asigurari de Viata S.A.	Romania	**100%**	100%
ING Greek Life Insurance Company S.A.	Greece	**100%**	100%
ING Biztosító Zártkörûen Mûködõ Részvénytársaság	Hungary	**100%**	100%
ING Pensionno-Osigoritelno Druzestvo EAD	Bulgary	**100%**	100%
ING Life Belgium N.V.	Belgium	**100%**	100%
ING Non Life Belgium N.V.	Belgium	**100%**	100%
ING Life Luxembourg S.A.	Luxembourg	**100%**	100%
Nationale-Nederlanden Vida, Compañia de Seguros y Reaseguros S.A.	Spain	**100%**	100%
Nationale-Nederlanden Generales, Compañia de Seguros y Reaseguros S.A.	Spain	**100%**	100%
ING Emeklilik A.S.	Turkey	**100%**	100%
ING Life Insurance Company Limited	Japan	**100%**	100%

51 STRUCTURED ENTITIES

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

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

NN Group’s activities involving structured entities are explained below in the following categories:

- Consolidated NN Group originated Liquidity management securitisation programmes (Hypenn);
- Investments – NN Group managed Investment funds; and
- Investments – Third party managed structured entities.

Consolidated NN Group originated Liquidity management securitisation programmes
In 2013, NN Bank originated a securitisation program of approximately EUR 2.1 billion mortgage loans (“Hypenn”). The related structured entity is consolidated by NN Bank and, therefore, the related mortgage loans continue to be recognised in the Consolidated balance sheet. The structured entity is partly funded through the issue of Residential Mortgage Backed Securities to ING Bank (as at 31 December 2013: EUR 400 million). Reference is made to Note 52 “Related parties”.

NN Group managed Investment funds
NN Group originates investment funds. NN Group may hold investments in these funds for its own account through the general account investment portfolio of the insurance operations. Other investments in these funds may be held for the account of policyholders or by third parties. For the majority of these funds, NN Group also acts as the fund manager. NN Group considers both NN Group’s financial interests for own risk and its role as investment manager to establish whether control exists and whether the fund is consolidated. In general, NN Group maintains a minority interest in these funds and NN Group receives a fixed fee over assets under management, at arm’s length basis, for its asset management activities. These funds are therefore generally not included in the Consolidated annual accounts of NN Group.

Reference is made to Note 4 “Available-for-sale investments” in which investments in equity securities are specified by NN Group managed investment funds and Third party managed investment funds. The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the consolidated balance sheet of NN Group.

Third party managed structured entities
As part of its investment activities, NN Group invests both in debt and equity instruments of structured entities originated by third parties.

Most of the debt investments relate to asset backed securities (ABS). Reference is made to Note 4 “Available-for-sale investments” where the ABS portfolio is disclosed.

The majority of the equity investments relate to interests in investment funds that are not originated or managed by NN Group. Reference is made to Note 4 “Available-for-sale investments” in which investments in equity securities are specified by NN Group managed investment funds and Third party managed investment funds.

NN Group has significant influence for some of its real estate investment funds as disclosed in Note 6 “Investments in associates”.

52 RELATED PARTIES

In the normal course of business, NN Group 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 Group include, amongst others, its joint ventures, associates, 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, transitional services, sourcing and procurement agreements, human resources-related arrangements, transfer pricing agreements, rendering and receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions with associates

	Associates		
	2013	2012	2011
Assets		48	47

In 2013, 2012 and 2011 there were no transactions with joint ventures.

Transactions with ING Groep N.V. and ING Bank N.V.

	ING Groep N.V.			ING Bank N.V.		
	2013	2012	2011	**2013**	2012	2011
Assets	**54**			**6,388**	4,942	13,211
Liabilities	**3,394**	3,749	2,617	**961**	294	1,888
Guarantees in favour of					221	250
Income received				**36**	68	338
Expenses paid	**125**	123	60	**100**	176	542

Liabilities to ING Groep N.V. mainly include long term funding.

NN Group has entered into the following financing arrangements with ING Group and with ING Bank.

- **Pooled Bank** Accounts: On 19 January 2012, NN Group entered into a pooled bank accounts agreement ("Fiat-en Rentestelsel") with ING Bank, to arrange for a current account deficit facility, and debit/credit interest on a set of pooled bank accounts of NN Group, whereby obligations of NN Group are secured by a right of pledge on bank accounts in favour of ING Bank.
- **WUB guarantees & indemnities:** NN Group has entered into certain guarantee agreements for the benefit of and with Westland/Utrecht Bank N.V. (WUB). NN Group has guaranteed:
  - all non-subordinated debt obligations of WUB (in relation to its funding) and of any of its subsidiaries entered into before 1 January 2013;
  - certain other obligations of WUB (in relation to its swap transactions), not covered by the guarantee under (i) above; and any
  - outstanding debt obligations under WUB's Debt Issuance Programme of 1997.

  Subsequently, NN Group has entered into certain unlimited indemnity agreements with ING Bank and ING Groep under which NN Group is indemnified by ING Bank for its obligations under each of the guarantees referred to above. The expiry date of last outstanding obligations covered by the guarantees is 25 March 2032. Under these guarantees in aggregate EUR 213 million was outstanding as at 31 December 2013.
- **ING U.S – ISDA guarantee:** NN Group has guaranteed the obligations under an ISDA Master Agreement entered into by a subsidiary of ING U.S. (which is currently 57% owned by ING Group). NN Group is indemnified by ING Group for this guarantee as outlined in an indemnity agreement between ING Group and the Company.
- **LOC Facility:** NN Group has entered into a Letter of Credit agreement ("LOC") with ING Bank on 29 April 2010, to the maximum facility amount of USD 185 million. Under this LOC Facility in aggregate EUR 116 million was outstanding as at 31 December 2013. All obligations under this LOC will expire at the end of 2014.
- **Senior Bridge Loan:** On 18 September 2013, NN Group (as Borrower) has entered into a senior loan agreement with ING Groep (as Lender), currently in the aggregate amount of EUR 1,000 million. The maturity date of this loan is 18 March 2014.
- **Revolving Credit Facility:** On 1 July 2013, NN Bank (as Borrower) has entered into a senior revolving credit facility agreement with ING Bank (as Lender) in the aggregate amount of EUR 250 million (under which currently no amounts have been drawn). The maturity date of this facility is 30 June 2015.
- **Senior Unsecured Notes:** On 1 July 2013, NN Bank N.V. has issued senior unsecured notes and placed the notes with ING Bank in the aggregate amount of EUR 270 million. The maturity date of these notes is 30 June 2023.
- **Pledge Financial Collateral Agreement:** On 20 December 2012, NN Group (as Pledgee) has entered into a Financial Collateral Pledge Agreement with ING Bank by which a right of pledge was created in favour of NN Group on certain securities held by ING Bank. The pledge serves as security for the duly repayment of cash deposits that NN Group has placed with ING Bank. This agreement will expire as of 20 March 2014.
- **Subordinated Loans:** NN Group has entered into perpetual subordinated loan agreements with ING Group. Reference is made to Note 14 "Subordinated loans".
- **Cash Investments:** ING Bank holds, for the benefit of NN Group cash positions in bank accounts, in the aggregate amount of EUR 829 million as at 31 December 2013 and investments in money market instruments, in the aggregate amount of EUR 5,383 million as at 31 December 2013.
- **Derivative transactions:** For general hedging purposes, NN Group has entered into derivative transactions with ING Bank on the basis of standard legal (master) derivative documentation.
- **Securities Lending:** NN Group (as Lenders) has entered into securities lending transactions with ING Bank N.V. (as Borrower) on the basis of customary legal (master) documents, lending debt securities, that are classified as available-for-sale instruments in the Consolidated balance sheet, to ING Bank in the aggregate amount of EUR 700 million during 2013, for general investment purposes. These debt securities remain to be recognised on the Consolidated balance sheet.
- **Securitisations:** NN Bank has entered into a Residential Mortgage-Backed Securities (RMBS) -transaction with ING Bank N.V. for the aggregate amount of EUR 400 million (of which currently EUR 400 million is outstanding).
- NN Bank has entered into a service agreement with Westland/Utrecht Hypotheekbedrijf N.V. and RVS Hypotheekbank N.V. on 1 July 2013, for providing certain management services in relation to a housing mortgage loan portfolio of Westland/Utrecht Bank N.V.
- In 2013 EUR 1.9 billion (2012: EUR 1.9 billion; 2011: EUR 1.8 billion) ING Bank mortgages were sold through the NN Group intermediary sales agents.

During 2013, due to the partly transfer of WestlandUtrecht Bank, certain assets and liabilities were transferred from ING Bank to NN Group. Reference is made to Note 49 "Companies and businesses acquired and divested".

Master claim agreement

In 2012, ING Groep N.V., ING U.S., Inc. and ING Insurance Eurasia N.V. entered into a master claim agreement to (a) allocate existing claims between these three parties and (b) agree on criteria for how to allocate future claims between the three parties. The master claim agreement contains further details on claim handling, conduct of litigation and dispute resolution. In 2014, NN Group replaced ING Insurance Eurasia N.V. as a party to the agreement.

Indemnification and allocation agreement with ING Insurance Eurasia N.V.

ING Groep N.V. and NN Group N.V. have entered into an indemnification and allocation agreement, in which ING Group has agreed to indemnify NN Group for certain liabilities that relate to the business of or control over certain (former) U.S. and Latin American subsidiaries of NN Group in the period until 30 September 2013 or, if the relevant subsidiary was divested by NN Group after 30 September 2013, such later date of divestment. These liabilities mainly include contingent liabilities that may arise as a result of the initial public offering of ING U.S. (such as prospectus liability) and the sales of the Latin American businesses (such as claims under warranties and other buyer protection clauses), and the liabilities for the claims concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN Group in Mexico and the claims filed by the purchaser of certain Mexican subsidiaries of NN Group claiming that the financial condition of the subsidiaries was not accurately depicted.

Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. Transactions with post-employment benefit plans are disclosed in Note 38 “Pension and other post-employment benefits”.

The governance of the insurance operations has changed during the reporting period and in early 2014. In 2013, all members of the Management Board ING Insurance Eurasia N.V. have become members of the Management Board ING Verzekeringen N.V. From 1 March 2014 onwards, due to the legal merger between ING Verzekeringen N.V. and ING Topholding N.V. and the subsequent change of the name of the entity to NN Group, all members of the Management Board ING Verzekeringen N.V. have become members of the Management Board NN Group. The disclosures in the below tables therefore are based on the members of the Management Board NN Group.

For the year 2013, the Management Board ING Topholding N.V. consisted solely of the members of the Executive Board of ING Groep N.V. The remuneration of this Management Board is borne by ING Groep N.V. and disclosed separately in the below tables.

Three of the Management Board members of NN Group are also Executive Board members of ING Groep N.V. The total remuneration of the Executive Board of ING Groep N.V. and Supervisory Board is borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board and Supervisory Board are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

Due to the transfer of ING U.S. in 2013, the Executive Officers of ING U.S., Inc. are no longer considered key management personnel of NN Group.

In 2013 and 2012, the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150,000 of each employee, subject to Dutch income tax. The tax is charged to NN Group and does not affect the remuneration of involved staff. The tax imposed on NN Group for relevant members of the Executive Board and Management Board amounts to EUR 1.6 million (2012; EUR 0.9 million), which is not included in the amounts in the table below.

Key management personnel compensation (Executive Board and Management Board)

2013 **Amounts in thousands of euros**	**Executive Board of ING Groep N.V.** (1,2)	**Management Board** (3)	**Total**
Fixed compensation			
– Base salary	**3,309**	**3,351**	**6,660**
– Pension costs	**549**	**745**	**1,294**
– Termination benefits		**765**	**765**
Variable compensation			
– Upfront cash		**395**	**395**
– Upfront shares		**395**	**395**
– Deferred cash		**593**	**593**
– Deferred shares		**593**	**593**
Total compensation	**3,858**	**6,837**	**10,695**

(1) Includes their compensation earned in the capacity as Executive Board members Mr. Hamers was appointed to the Executive Board on 13 May 2013 and Mr. Hommen stepped down from the Executive Board as per 1 October 2013.

(2) The members of the Executive Board of ING Groep N.V. were also members of the Management Board ING Topholding N.V. for the year 2013.

(3) Excluding members that are also members of the Executive Board of ING Groep N.V.

Key management personnel compensation (Executive Board and Management Board)

2012 amounts in thousands of euros	Executive Board of ING Groep N.V. [1]	Management Board [2,3,4]	Total
Fixed compensation			
– Base salary	2,572	4,897	7,469
– Pension costs	311	893	1,204
– Termination benefits		1,873	1,873
Variable compensation			
– Upfront cash		2,296	2,296
– Upfront shares		160	160
– Deferred cash		240	240
– Deferred shares		2,604	2,604
– Other		339	339
Total compensation	2,883	13,302	16,185

[1] The members of the Executive Board of ING Groep N.V. were also members of the Management Board ING Topholding N.V. for the year 2013.
[2] Excluding members that are also members of the Executive Board of ING Groep N.V.
[3] Besides the compensation in his capacity as Board member, one of the Management Board members received a “buy-out” for the compensation that he would have received had he not resigned from his former employer. The buy-out consists of a cash amount and shares with a total value of EUR 500.000 at the grant date, which vests in the years 2012-2015.
[4] After publication of the 2012 Annual Account, a variable reward of EUR 84,375 was awarded to one board member, which was pending final approval. The 2012 figures were updated for this award.

Key management personnel compensation (Executive Board and Management Board)

2011 amounts in thousands of euros	Executive Board of ING Groep N.V. [1]	Management Board [2]	Total
Fixed compensation			
– Base salary	2,666	2,560	5,226
– Pension costs	315	481	796
Variable compensation			
– Upfront cash		643	643
– Upfront shares		341	341
– Deferred cash		511	511
– Deferred shares		945	945
Total compensation	2,981	5,481	8,462

[1] The members of the Executive Board of ING Groep N.V. were also members of the Management Board ING Topholding N.V. for the year 2013.
[2] Excluding members that are also members of the Executive Board of ING Groep N.V.

In 2013, the total remuneration costs amounted to EUR 3.9 million (2012: EUR 2.9 million; 2011: EUR 3.0 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.9 million (2012: EUR 1.4 million; 2011: EUR 1.5 million) was allocated to NN Group. The total remuneration costs amounted EUR 1.1 million (2012: EUR 0.8 million; 2011: EUR 0.9 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.5 million (2012: EUR 0.4 million; 2011: EUR 0.4 million) was allocated to NN Group.

Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	**2013**	2012	2011
Base salary	**1,065**	806	857
Total compensation	**1,065**	806	857

The disclosures relating to remuneration of the Supervisory Board reflect the amounts relating to ING Group as a whole. The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2013, 2012 and 2011. From 1 January 2013, new VAT legislation became effective based on which Dutch members of the Supervisory Board are considered as self-employed persons who’s compensation is subject to VAT in the Netherlands. The table presented above is including VAT of EUR 0.1 million for 2013.

Notes to the Consolidated annual accounts of NN Group continued

Loans and advances to key management personnel

	Amount outstanding 31 December			Average interest rate			Repayments		
amounts in thousands of euros	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Executive Board members	**3,347**	2,338	1,968	**2.7%**	3.3%	3.6%	**500**		
Members of the Management Board		480	2,314	**0.0%**	3.1%	3.4%		60	388
Supervisory board members			282	**0.0%**		8.6%		282	
Total	**3,347**	2,818	4,564				**500**	342	388

Key management personnel compensation is generally included in Staff expenses in the profit and loss account, except for Key management personnel employed by entities that are presented as held for sale and discontinued operations in which case their compensation is included in the Total net result from discontinued operations.

Remuneration of the Executive Board and Management Board NN Group is recognised in the P&L in Staff expenses as part of Total expenses. The total remuneration of the Executive Board and Management Board NN Group as disclosed in the table above (for 2013: EUR 10.7 million) includes all variable remuneration related the performance year 2013. Under IFRS, certain components of variable remuneration are not recognised in the P&L directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2013, and therefore included in Total expenses in 2013, relating to the fixed expenses of 2013 and the vesting of variable remuneration of earlier performance years, is EUR 9.2 million.

Transactions with the Dutch State

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-Up Facility (“IABF”) on 26 January 2009. The transaction closed on 31 March 2009. The IABF covers the Alt-A portfolios of ING Insurance US, with a par value of approximately EUR 4 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 2.6 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 2.7 billion. The transaction resulted in a loss in the first quarter of 2009 of EUR 154 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 1.7 billion.

In order to obtain approval from the European Commission on ING Groep N.V.’s Restructuring Plan (see below), ING agreed to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion before tax, which was recognised as a one-off charge for ING Groep N.V. in the fourth quarter of 2009.

The difference between the total sales proceeds and the fair value under IFRS-EU represents a “Government grant” under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction. The transaction resulted in a reduction of the negative revaluation – and therefore an increase in equity – of EUR 0.7 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 40 “Fair value of financial assets and liabilities”.

In connection with the sale of ING Direct USA, ING has reached an agreement with the Dutch State to adjust the structure of the Illiquid Assets Back-up Facility (IABF). This adjustment served to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State and became effective at the closing of the sale in February 2012. Under the terms of the original transaction ING Direct USA held on its balance the remaining 20% of the Alt-A portfolio, ensuring an alignment of interests between ING and the Dutch state regarding the performance of the portfolio.

Upon closing of the sale ING provided a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee covered realised cash losses if they would exceed the 35% that is implied by the market value of the portfolio in June 2011. This adjustment therefore lowered the risk exposure for the Dutch State.

As at 31 December 2011, the remaining outstanding amount from the transaction price, including the unamortised components, that remained payable by the Dutch State was EUR 1.4 billion for the insurance operations.

In November 2012, ING restructured the IABF to effectively delink ING Insurance US from the IABF as another step towards a planned IPO of ING Insurance US. ING Insurance US transferred its Dutch State receivable of approximately EUR 1.1 billion (USD 1.4 billion) to ING Bank, and at the same time transferred legal title to 80% of the Alt-A portfolio to ING Bank. As at 31 December 2012, ING Insurance US therefore no longer has a receivable from the Dutch State in connection with the IABF. The securities were held in an ING Bank custody account for the benefit of the Dutch State (the portion for which the investment risk has been transferred to the Dutch State). Following the restructuring, ING Insurance US continues to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remains for the risk of ING), but will going forward have the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING has committed to the Dutch State it will not sell these securities to non-ING parties without the prior written consent of the Dutch state.

In December 2013, ING reached a final agreement with the Dutch State on the unwinding of the IABF. The terms of the agreement were approved by the EC. Under the agreement, the IABF in its current form was terminated, the regular guarantee fee payments were settled for an amount of EUR 0.4 billion and the other restrictions as part of the IABF agreement are no longer applicable. Furthermore, under the agreement, the Dutch State committed to sell the Alt-A securities in the market.

The total nominal value of the portfolio of securities held by the Dutch state decreased to EUR 4.6 billion at 31 December 2013 as a result of regular repayments on the underlying mortgages by homeowners and the first tranche of the divestment of securities with a notional outstanding amount of EUR 3.7 billion following the termination of the IABF. The remaining nominal value of the portfolio of securities held by the Dutch state as at 31 December 2013 was sold in January and early February 2014.

The State used all repayments and net fees received to pay off the loan from ING, reducing the amount outstanding to EUR 2.7 billion at 31 December 2013 (2012: EUR 7.8 billion). This remaining amount was fully repaid in January 2014.

Unwinding the IABF also resulted in eliminating a counter-guarantee that ING extended to the Dutch state in connection with the divestment of ING Direct USA in 2012.

European Commission Restructuring Plan

In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. By decision of 18 November 2009, the European Commission, formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

- elimination of double leverage and significant reduction of ING’s balance sheet;
- divestment of all Insurance and Investment Management activities;
- divestment of ING Direct USA;
- creation of a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, needs to be divested;
- restriction to be a price leader in any EU country for certain retail and SME banking products and restriction to acquire financial institutions or other businesses that would delay the repayment of the non-voting equity securities.

These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State:

- an agreement with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- repayment of EUR 5 billion of the non-voting equity securities issued in November 2008 to the Dutch State;
- additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING of EUR 1.3 billion in the fourth quarter of 2009;
- launch of a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and a mitigation of the capital impact of the additional Illiquid Assets Back-up Facility payment as part of the overall agreement with the European Commission to the Dutch State of EUR 1.3 billion;
- execution of the Restructuring Plan before the end of 2013;
- if the overall return on the (remaining) non-voting equity securities (core Tier 1 securities) issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints; and
- The calling of Tier 2 capital and Tier 1 hybrids will in the future be proposed case by case to the Commission for authorisation, for the shorter period of three years starting from the date of the Commission decision or up to the date on which ING has fully repaid the non-voting equity securities (core Tier 1 securities) to the Dutch State (including the relevant accrued interest of core Tier 1 coupons and exit premium fees).

ING announced in November 2012 that, together with the Dutch State, it had submitted significant amendments to the 2009 Restructuring Plan to the European Commission. The European Commission approved these amendments by Decision of 16 November 2012.

Amendments to the Restructuring Plan in 2012

The amendments to the 2009 Restructuring Plan as announced in November 2012 extended the time horizon and increased the flexibility for the completion of divestments and adjusted other commitments in light of the market circumstances, economic climate and more stringent regulatory requirements.

Under the amendments announced in 2012, the ultimate dates for divesting the insurance and investment management businesses changed as follows:

- The divestment of more than 50% of ING's interest in its Asian insurance and investment management operations has to be completed by year-end 2013, with the remaining interest divested by year-end 2016;
- The divestment of at least 25% of ING's interest in ING U.S. has to be completed by year-end 2013, more than 50% has to be divested by year-end 2014, with the remaining interest divested by year-end 2016;
- The divestment of more than 50% of ING's interest in its European insurance and investment management activities has to be completed by year-end 2015, with the remaining interest divested by year-end 2018; and
- As ING has committed to eliminate double leverage, proceeds from the divestments will be used to that end while ensuring adequate leverage ratios of the insurance holding companies.

A divestment of more than 50% of ING's interest as mentioned in this paragraph and furthermore below also means that ING Group (a) no longer has a majority of representatives on the Boards of these operations and (b) has deconsolidated these operations from ING Group's financial statements in line with IFRS-EU accounting rules.

Under the terms of the 2009 Restructuring Plan, ING was required to divest WestlandUtrecht Bank. However, due to market circumstances and changing regulatory requirements, a divestment of WestlandUtrecht did not occurred. Instead, under the 2012 amended Restructuring Plan, the commercial operations of WestlandUtrecht Bank were combined with the retail banking activities of NN Bank, which is to be divested as part of ING's insurance and investment management operations in Europe. The result has to be that NN Bank is a viable and competitive business, which stands alone and is separate from the businesses retained by ING. To this end ING already needs to ring-fence NN Bank up to the divestment of more than 50% of the European insurance and investment management activities.

On 1 July 2013 EUR 3.8 billion of WestlandUtrecht Bank's Dutch mortgage portfolio, EUR 0.1 billion of consumer lending and EUR 3.7 billion of Dutch savings portfolio were transferred to NN Bank. In addition approximately 400 of WestlandUtrecht Bank's employees were transferred to NN Bank. All assets and liabilities were transferred at the existing carrying value as previously included in ING Bank's balance sheet. This transaction was completed on 1 July 2013.

ING has committed amongst others, that NN Bank will reach certain targets for mortgage production and consumer credit until the date at which more than 50% of NN Group has been divested or until 31 December 2015 if the European Commission requires so. Furthermore, ING has agreed to a maximum ratio for mortgage production at ING Retail Banking Netherlands in relation to mortgage production of NN Bank until year-end 2015.

The 2009 Restructuring Plan included restrictions on acquisitions and price leadership for certain products in EU markets. These restrictions will continue to apply until 18 November 2015 or until the date on which more than 50% of each of the insurance and investment management operations has been divested, whichever date comes first.

The price leadership restrictions in Europe have been amended to reflect specific conditions in various local markets. Under the amendments, the constraint no longer applied in the Netherlands, but ING Direct in the EU will refrain from offering more favourable prices than its best priced direct competitor among the ten financial institutions having the largest market share in the respective countries.

The calling or buy-back of Tier 2 capital and Tier 1 Hybrid Securities will continue to be proposed for authorisation to the European Commission on a case by case basis until ING has fully repaid the core Tier 1 securities to the Dutch State, but ultimately until 18 November 2014, whichever date comes first. Notwithstanding this restriction, ING was allowed to call the EUR 1.25 billion hybrid securities, originally issued by ING Verzekeringen N.V. on 21 December 2012.

The 2012 amended Restructuring Plan includes a repayment schedule for the remaining core Tier 1 securities to the Dutch State.

The implementation of the commitments and obligations set out in the (amended) Restructuring Plan will be monitored by a monitoring trustee who is independent of ING until 31 December 2015.

The 2012 amended Restructuring Plan was formally approved by the European Commission, by decision of 16 November 2012. As a result, the Commission closed its formal investigations as announced on 11 May 2012 and ING also withdrew its appeal at the General Court of the European Union, filed in July 2012. For principal legal reasons, the European Commission has continued with its appeal against the General Court ruling of March 2012. However, ING, the Dutch State and the European Commission agreed that any outcome of this procedure will not affect the approval of the amended Restructuring Plan. It is expected that this judgment will be rendered in April 2014.

Amendments to the Restructuring Plan in 2013

In November 2013 further amendments to the Restructuring Plan were announced. It was announced that the scope of the intended Initial Public Offering (IPO) of NN Group is expanded to include ING Life Japan. In that context, ING and the Dutch State have reached an agreement with the European Commission on revised timelines for the divestment process of ING Life Japan and ING’s European insurance and investment management activities.

As part of the previously announced amended restructuring agreement with the EC in 2012, ING planned to divest more than 50% of ING’s Asian insurance and investment management businesses by the end of 2013. ING successfully divested most of these businesses over the course of the past year. Under the revised timelines announced, ING will divest ING Life Japan in line with the divestment timeline for ING’s European insurance and investment management activities. This means that the timeline to divest more than 50% of ING Life Japan has effectively been extended by two years to year-end 2015, which is also the unchanged timeline to divest more than 50% of ING’s European insurance and investment management businesses. As part of the revised 2013 agreement, ING will accelerate the timeline to complete the divestment of 100% of ING’s European insurance and investment management activities by two years to year-end 2016. Preparations for an base case IPO of NN Group in 2014 are on track.

The amendments to the restructuring plan of 2013 were formally approved by the European Commission by decision of 5 November.

Credit Guarantee Scheme

As part of the measures adopted to protect the financial sector, the Dutch State introduced a EUR 200 billion credit guarantee scheme for the issuance of medium term debt instruments by banks (the Credit Guarantee Scheme). ING Bank N.V. issued government guaranteed debt instruments under this Credit Guarantee Scheme (“Government Guaranteed Bonds”) as part of its regular medium-term funding operations. The relevant Rules of the Credit Guarantee Scheme set forth the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 15 “Debt securities in issue”.

Other

Following the transactions as disclosed in this note, the Dutch State is a related party of ING Group. All other transactions between ING Group and the Dutch State are of a normal business nature and at arm’s length.

In the framework of the transactions with the Dutch State disclosed in this note, certain arrangements with respect to corporate governance and executive remuneration were agreed with the Dutch State which were in place until the Illiquid Assets Back-up Facility was unwound. The State Nominees will stay in office for the term for which they were appointed.

53 OTHER EVENTS

ING U.S.

IPO of ING U.S. in May 2013

In May 2013, approximately 65.2 million ordinary shares were sold in the Initial Public Offering (“IPO”) of ING U.S., Inc., the U.S.-based retirement, investment and insurance business (“ING U.S.”). Furthermore, on 29 May 2013, the underwriters of the IPO exercised in full their option to purchase approximately 9.8 million additional shares of ING U.S.

The total proceeds of these transactions were EUR 1,061 million (USD 1,385 million). The IPO reduced the ownership in ING U.S. from 100% to 71.25%.

These transactions did not impact the profit and loss account, as ING U.S. continued to be fully consolidated at that date. The transactions had a negative impact of approximately EUR 1,958 million on Shareholders’ equity (parent), including EUR 19 million transaction costs after tax. This amount reflected the difference between the net proceeds of this offering and the IFRS-EU carrying value of the 28.75% interest divested in this IPO. This amount was recognised in “Other reserves”.

Minority interests at that date increased with EUR 2,954 million due to the IPO of ING U.S. This amount represented 28.75% of the net asset value under IFRS-EU of ING U.S.

As a result, the total impact on Total equity was EUR 996 million.

Transfer of ING U.S.

At 30 September 2013, the remaining interest in ING U.S. was transferred to ING Groep N.V. by way of dividend in kind of EUR 6,826 million. As of the date of transfer, ING U.S. ceased to be consolidated; the results for the period until transfer are presented as discontinued operations. Reference is made to Note 33 “Discontinued operations”.

As the transfer was performed at carrying value, the transaction did not impact Net result from continuing and discontinued operations. The transfer reduced Shareholder’s equity with EUR 6,826 million as the reserves relating to ING U.S. were released. Furthermore Minority interest of EUR 3,010 million relating to ING U.S. was also transferred The impact on Total equity is therefore EUR –9,836 million. Reference is made to Note 13 “Equity”.

Due to the transfer, the segments Insurance United States (US), Insurance US Closed Block VA, Investment Management US and the Corporate Line US ceased to exist.

NN Group’s business in Japan

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that a standalone divestment of ING Life Japan, including its Corporate Owned Life Insurance (COLI) and Closed Block VA businesses, is not feasible in a manner that would appropriately meet the demands of regulators and other stakeholders in ING Group and ING Life Japan. Therefore, ING Life Japan will be included with NN Group’s European insurance and investment management businesses in the base case IPO of NN Group in 2014.

As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re (“NN Group’s business in Japan”) are no longer classified as held for sale and discontinued operations. The individual assets and liabilities of NN Group’s business in Japan are therefore classified out of Assets and liabilities held for sale and presented in the usual consolidated balance sheet line items. The individual income and expenses of NN Group’s business in Japan are classified out of Net result from discontinued operations and presented in the usual consolidated profit and loss account line items.

The comparative periods for the balance sheet have not been restated and therefore the assets and liabilities of NN Group’s business in Japan are still included in Assets and liabilities held for sale for the year 2012. All comparative periods in the Consolidated profit and loss account have been restated for this decision and therefore income and expenses of NN Group’s business in Japan are included in the continuing operations part of the statement for the years 2012 and 2011.

NN Group has adjusted its reporting structure to better align its segmentation according to the businesses that it comprises, their governance and internal management, and to reflect the decision to divest ING Life Japan with the IPO of NN Group. The new reporting segments for NN Group are as follows:
- Netherlands Life
- Netherlands Non-life
- Insurance Europe
- Japan Life
- Investment Management (IM)
- Other
- Japan Closed Block VA

Reference is made to Note 36 “Segments”.

Japan Life, representing COLI business, and the Japan Closed Block VA, are reported separately to reflect the distinct nature of these two Japanese businesses. Under NN Group's existing accounting policies, the net insurance liability of any business line must be adequate at the 50% confidence level. The Japan Closed Block VA business had a reserve inadequacy at the 50% confidence level in October 2013. This inadequacy used to be offset by surplus adequacies in other businesses in the same business line that the Japan Closed Block VA business used to be part off, The separate reporting of the Japan Closed Block VA business line therefore triggered a charge of approximately EUR 575 million before tax to restore the reserve inadequacy. This charge resulted in a write-off of all deferred acquisition costs (DAC) related to the Japan Closed Block VA business of EUR 1,405 million partly compensated by a release of the Life insurance provision related to unearned revenues of EUR 867 million, and an increase in the life insurance provisions for the remaining amount.

Australia

In 2013, ING Australia Holdings Limited was transferred to ING Bank at carrying value. ING Australia Holdings Limited does not have operating activities.

54 RECLASSIFIED BALANCE SHEET AND CASH FLOW STATEMENT

In order to provide comparable information based on a comparable scope of entities, reclassified Consolidated balance sheets and reclassified Consolidated cash flow statements are presented for the years 2012 and 2011 in addition to the IFRS-EU statements. In these reclassified statements all businesses that have been divested or presented as held for sale as at 31 December 2013, are treated as held for sale in 2012 and 2011.

Reclassified Balance sheet

	2013	Reclassified 2012	Reclassified 2011	IFRS 2012	IFRS 2011
Assets					
Cash and cash equivalents	**7,155**	4,347	9,707	5,389	11,577
Financial assets at fair value through profit or loss:					
– trading assets	**736**	586	503	586	534
– investments for risk of policyholders	**39,589**	43,821	43,075	98,765	116,438
– non-trading derivatives	**3,126**	4,662	5,157	5,107	7,285
– designated as at fair value through profit or loss	**482**	2,696	29	2,000	2,616
Available-for-sale investments	**61,014**	68,316	60,646	119,305	133,604
Loans and advances to customers	**25,319**	17,676	20,870	25,823	32,928
Reinsurance contracts	**252**	266	373	5,290	5,870
Investments in associates	**1,028**	1,265	1,435	1,352	1,526
Real estate investments	**764**	799	865	805	954
Property and equipment	**164**	203	243	338	469
Intangible assets	**392**	437	510	1,018	1,972
Deferred acquisition costs	**1,353**	3,142	3,404	4,549	10,204
Other assets	**3,754**	4,558	5,670	6,735	9,631
Total assets excluding assets held for sale	**145,128**	152,772	152,488	277,062	335,608
Assets held for sale	**630**	185,981	183,120	61,691	
Total assets	**145,758**	338,753	335,608	338,753	335,608
Equity					
Shareholder's equity (parent)	**14,227**	26,423	23,412	26,423	23,412
Minority interests	**68**	217	62	217	62
Total equity	**14,295**	26,640	23,474	26,640	23,474
Liabilities					
Subordinated loans	**2,892**	2,947	4,367	2,947	4,367
Debt securities in issue		773	2,934	1,910	3,436
Other borrowed funds	**4,817**	5,293	5,876	7,442	7,307
Insurance and investment contracts	**111,551**	123,013	121,683	229,950	278,833
Customer deposits and other funds on deposit	**5,769**				
Financial liabilities at fair value through profit or loss:					
– non-trading derivatives	**1,843**	2,610	1,696	3,258	4,404
Other liabilities	**4,125**	5,920	5,808	10,951	13,787
Total liabilities excluding liabilities held for sale	**130,997**	140,556	142,364	256,458	312,134
Liabilities held for sale	**466**	171,558	169,770	55,655	
Total liabilities	**131,463**	312,113	312,134	312,113	312,134
Total equity and liabilities	**145,758**	338,753	335,608	338,753	335,608

In the 2012 and 2011 reclassified balance sheets, Assets and liabilities held for sale includes ING U.S., the insurance and investment management businesses in Asia ("Asia") excluding NN Group's business in Japan and ING Hypotecaria. In these reclassified balance sheets the assets and liabilities of NN Group's business in Japan are included on a line by line basis.

In the 2012 and 2011 IFRS balance sheets, Assets and liabilities held for sale includes the insurance and investment management businesses in Asia ("Asia") including NN Group's business in Japan.

Reclassified Cash flow statement

		Reclassified			IFRS
	2013	2012	2011	2012	2011
Cash and cash equivalents at the beginning of the period/year	**6,717**	11,577	6,666	11,577	8,646
Net cash flow from operating activities	**–8,247**	–448	–1,587	723	2,068
Net cash flow from investing activities	**8,126**	–806	1,548	–2,881	2,477
Net cash flow from financing activities	**457**	–4,088	3,055	–2,737	–1,558
Net cash flow from entities held for sale		501	1,870		
Effect of foreign exchange rate changes	**182**	–19	25	35	–56
Closing cash and cash equivalents at the end of the period/year	**7,235**	6,717	11,577	6,717	11,577

55 SUBSEQUENT EVENTS

Defined Benefits Pension Fund in The Netherlands

In February 2014 ING reached an agreement with the trade unions, the ING Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations of ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement has made the ING Pension Fund financially independent from ING.

The key elements of the agreement are:

- Responsibility for future indexation and funding thereof will be transferred to the Dutch ING Pension Fund;
- ING's obligation to restore the coverage ratio of the Dutch ING Pension Fund ceased;
- The cross guarantees between ING Bank and NN Group to jointly and severally fund the obligations of the Dutch ING Pension Fund are terminated;
- ING paid EUR 549 million (before tax) to the Dutch ING Pension Fund for the removal of these obligations; and
- ING will reduce the employees' own contribution to the pension premium under the new defined contribution plan by approximately EUR 80 million over a 6 year period.

As part of the agreement, ING Bank and NN Group are released from all financial obligations arising from the Dutch defined benefit plan. Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from the balance sheet. The removal of the net pension asset related to the Dutch defined benefit pension plan from the balance sheet of approximately EUR 0.6 billion after tax and the payment to the Dutch ING Pension Fund of EUR 0.5 billion (EUR 0.4 billion after tax) will result in a charge of approximately EUR 1.1 billion after tax to be recognised in 2014. Of this impact, EUR 0.4 billion will be attributed to NN Group.

Accounting for GMDB in Japan Closed Block VA

NN Group applies fair value accounting on the reserves for Guaranteed Minimum Death Benefits (GMDB) of the Japan Closed Block VA from 1 January 2014. This improves the alignment of the carrying value of the GMDB reserves with their market value, better reflects the economic value of these guarantees and improves the alignment of the accounting for the guarantees with the accounting for the related hedges. Furthermore, this move makes the accounting for the GMDB consistent with the accounting on the reserves for Guaranteed Minimum Accumulation and Withdrawal benefits. As at 1 January 2014, the difference between the current carrying value and the estimated fair value of the GMDB reserves was EUR 219 million (before tax). Implementation of fair value accounting for GMDB represents a change in accounting policy under IFRS-EU with a transitional impact of EUR 165 million after tax being reflected only in Shareholder's equity as of 1 January 2014. Results for comparative periods will be restated accordingly.

Risk management

amounts in millions of euros, unless stated otherwise

INTRODUCTION

Risk taking is integral to the business model for insurance, investment management, and banking organisations such as NN Group. NN Group has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices, NN Group seeks to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

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

- ***Risk management structure and governance systems.*** NN Group's risk management structure and governance systems follow the "three lines of defence" model, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Group's risk management. These structure and governance systems are embedded in each of NN Group's organisational layers, from the holding level to the individual business units.
- ***Risk management framework.*** NN Group's risk management framework takes into account the relevant elements of risk management, including its integration into NN Group's strategic planning cycle, the management information generated, and a granular risk assessment.
- ***Risk management policies, standards and processes.*** NN Group has a comprehensive set of risk management policies, standards and processes, which are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN Group's business and risk profile. These risk management policies, standards and processes apply throughout NN Group and are used by NN Group to establish, define, and evaluate NN Group's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

ORGANISATIONAL RISK MANAGEMENT STRUCTURE

MANAGEMENT BOARD AND ITS (SUB)COMMITTEES

The Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. The Management Board or its subcommittees approve all risk management policies as well as the quantitative and qualitative elements of NN Group's risk appetite. The Management Board reports and discusses these topics with the Risk Committee, which is a sub-committee of the Supervisory Board, on a quarterly basis.

While the Management Board retains ultimate responsibility for NN Group's risk management, it has delegated certain responsibilities to a committee of the Management Board, the Risk and Finance Committee, which is responsible for day-to-day risk and finance related risk management decision-making, processes and controls. The Risk and Finance Committee has further delegated certain tasks to sub-committees, which advise the Risk and Finance Committee on risk and finance-related topics. These sub-committees are the Asset and Liability Committee, the Non-Financial Risk Committee, the Product Risk Committee, the Model Committee, the Finance Committee, the Investment Committee, and the Crisis Committee.

Chief risk officer

The chief risk officer of NN Group (the **CRO**) is a member of the Management Board. The CRO bears primary and overall responsibility for NN Group's risk management. The CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand, the material risks to which NN Group is exposed. Each business unit has its own chief risk officer, who reports (directly or indirectly) to the CRO.

The CRO is primarily responsible for:

- setting risk policies;
- formulating NN Group's risk management strategy and ensuring that it is implemented throughout NN Group;
- monitoring compliance with NN Group's overall risk policies;
- supervising the operation of NN Group's risk management and business control systems;
- reporting of NN Group's risks and the processes and internal business controls; and
- making risk management decisions with regard to matters which may have an impact on the financial results of NN Group or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the Management Board and the general affairs of the Company and its business. For risk management purposes the Supervisory Board is assisted by two committees:

- ***Risk Committee***. The Risk Committee assists the Supervisory Board in supervising and advising the Management Board with respect to NN Group's risk management strategy and policies.
- ***Audit Committee.*** The Audit Committee reviews and assesses the applicable accounting standards and the Company's compliance therewith, the going concern assumption, significant financial risk exposures, significant adjustments resulting from audit, compliance with statutory and legal requirements and regulations, tax and tax planning matters with a material impact on the financial statements, and detection of fraud and other illegal acts.

Three lines of defence model

The three lines of defence model, on which NN Group's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities, and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the Management Board, ratified by the Supervisory Board, and cascaded throughout NN Group.

- ***First line of defence***: the CEOs of the business units of NN Group and the other management board members of the business units have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses. They underwrite the insurance products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Group's best interest.
- ***Second line of defence***: oversight functions at the Head Office and at the business units with a major role for the risk management organisation, headed by the CRO and the corporate legal and compliance function. The membership of the CRO on the Management Board ensures that risk management issues are heard and discussed at the highest level. The CRO steers a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions:
    - develop the policies and guidance for their specific risk and control area;
    - encourage and objectively challenge/monitor sound risk management throughout the organisation and coordinate the reporting of risks;
    - support the first line of defence in making proper risk-return trade-offs;
    - have escalation/veto power in relation to business activities that are judged to present unacceptable risks to NN Group.
- ***Third line of defence***: corporate audit services (**CAS**). CAS provides an independent assessment of the standard of internal control with respect to NN Group's business and support processes, including governance, risk management and internal controls.

RISK MANAGEMENT FRAMEWORK

NN Group's risk management framework comprises a series of sequential steps, through which NN Group seeks to identify, measure and manage the risks to which it is exposed. The diagram below sets out these steps.

- ***Objective setting***. Business planning and priority setting is undertaken through an annual medium term planning (**MTP**) process, which is integrated with NN Group’s own risk and solvency assessment (**ORSA**) process. At the start of the MTP process, NN Group establishes strategic objectives at a holding level. Those strategic objectives are used to establish and define NN Group’s risk appetite, which consists of quantitative and qualitative statements defining those risks NN Group wishes to acquire, to avoid, to retain and/or to remove. The strategic objectives are cascaded through the enterprise and business unit plans and evaluated against the risk appetite. Targets and risk limits for the business units are derived from NN Group’s overall strategy and risk appetite framework.
- ***Event identification***. NN Group identifies events that may potentially impact its risk position, recognising that uncertainties exist, and that NN Group cannot know with certainty which events will occur and when,, or what the outcome or impact would be if it did occur. As part of event identification, NN Group considers both external and internal factors that affect event occurrence. External factors include economic, business, natural environment, political, demographic, social and technological factors. Internal factors reflect NN Group’s choices and concern such matters as infrastructure, personnel, process and technology.
- ***Risk assessment***. NN Group, centrally at the executive level and at the business unit level, considers how events identified in the previous step might affect the achievement of NN Group’s strategic objectives. Key risks are assessed on a regular basis and, where appropriate, this analysis is supported by models (such as for NN Group’s economic capital calculation; see also “NN’s Risk Profile—Economic capital”). NN Group conducts regular top-down assessments of its key risks, both at the holding level and at the level of the individual business units.
- ***Risk response and control***. Once a risk is assessed, NN Group identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the risk appetite framework NN Group designs its response for each assessed risk. Risk and control activities are performed throughout NN Group, at all organisational levels.
- ***Information and communication***. Communication of information is a key part of NN Group’s risk management framework. Risk management officers, departments, and committees within NN Group are informed regularly of NN Group’s position compared to its strategic objectives and its risk appetite to enable them to monitor developments and to timely take appropriate decisions. Comprehensive reports on NN Group’s financial and insurance risks, and on its non-financial risks, are prepared and discussed every quarter. These reports analyse, amongst others, developments in financial markets and their impact on NN Group’s capital position, the effectiveness of NN Group’s hedge positions, and any incidents that may have occurred.
- ***Monitoring***. The effectiveness of NN Group’s risk management itself is also monitored. Regular monitoring ensures that risk management is maintained at all organisational levels of NN Group and is carried out by all three lines of defence.

RISK MANAGEMENT POLICIES, STANDARDS AND PROCESSES

NN Group has a comprehensive set of risk management policies, standards and processes in place. These policies, standards and processes are regularly updated to align with industry practices and changes in NN Group’s business profile, and to comply with applicable laws and regulations. Key areas of risk management for which NN Group has established policies, standards and processes are set out below.

RISK APPETITE FRAMEWORK

NN Group’s risk appetite framework determines which risks NN Group wishes to take, to avoid, to retain and/or to remove. The risk appetite framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. The risk appetite framework is based on three key quantitative measures that aim to:

- ensure cash capital is sufficient following a 1 in 20 annual risk sensitivity; NN Group quantifies this using regulatory capital sensitivities and potential capital management actions.
- ensure economic solvency is sufficient following a 1 in 20 annual risk sensitivity; NN Group quantifies this risk using available financial resources/economic capital and related sensitivities. Available financial resources (AFR) is a before tax market value surplus defined as market value of assets less market value of liabilities.
- ensure IFRS results before tax are sufficient following a 1 in 20 annual risk sensitivity; NN Group quantifies this risk using sensitivities on the IFRS results before tax.

In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework that serve to guide risk taking for conduct in the areas of underwriting, Asset and Liability management (**ALM**), investing and operations. These statements support NN Group's strategy, contribute to avoiding unwanted or excessive risk taking, and aim to further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- ***Managing underwriting***. Underwriting and product development is paramount to the insurance business. NN Group strives for appealing, easy to understand and transparent value-for-money products that can be effectively risk-managed over the expected life of the contract.
- ***ALM***. NN Group aims to match its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any mis-matches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations.
- ***Managing investments***. NN Group has an appetite for investments that will provide an appropriate risk and return for NN's policyholders and shareholders.
- ***Managing operations***. Under this category, NN Group stipulates requirements for managing reputation, business continuity, processes and controls, as well as providing a safe and engaging work environment for a competent workforce.

RISK POLICY FRAMEWORK

NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the respective risk committees.

RISK LIMITS

The quantitative risk appetite statement is translated into quantitative risk limits for the business units. The business units report regularly on their risk profile compared to applicable risk appetite and risk limits.

PRODUCT APPROVAL AND REVIEW PROCESS

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

NEW INVESTMENT CLASS AND INVESTMENT MANDATE PROCESS

NN Group maintains a new investment class approval and review process (**NICARP**) for approving new investment classes of assets. At the holding level, NN Group establishes a global list of asset classes in which the business units may invest. Each business unit also maintains a local asset list that is a subset of the global asset list. The local asset list includes asset allocation parameters, which prescribe the relative proportions in which the relevant business unit may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

OWN RISK AND SOLVENCY ASSESSMENT AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

NN Group (and each of its regulated insurance subsidiaries) produces an own risk and solvency assessment (**ORSA**) at least once a year. In the ORSA, NN Group 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 how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes an overall assessment of NN Group's solvency position in light of the risks it holds. NN Group's banking and investment management operations, at least once a year, run an internal capital adequacy assessment process (**ICAAP**) in conformity with Basel II requirements. ICAAP tests whether current capital positions are adequate for the financial risks that the relevant NN Group entities bear.

IFRS RESERVE ADEQUACY TEST

All of NN Group's operating insurance entities need to ensure that their IFRS insurance reserves are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. The reserve adequacy test is executed by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin to ensure that the reserves remain adequate based on these assumptions. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets, anticipated new premiums and reinvestment rates in relation to maturing assets.

NON-FINANCIAL RISK DASHBOARD

Non-financial risks are monitored through the non-financial risk dashboard (**NFRD**) process at all levels in the organisation. The NFRD is one tool which provides management at all organisational levels with information about key operational, compliance and legal risks and incidents. The exposure of NN Group to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

MODEL GOVERNANCE AND VALIDATION

NN Group’s model governance and validation function seeks to ensure that NN Group’s models achieve their intended purpose. Models and their disclosed metrics are approved by the Model Committee. The findings of the model validation function are also reported regularly to the Model committee. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Group. Furthermore, the model validation function carries out validations of internal models related to Solvency II. To ensure independence from the business and other risk departments, the model validation department head reports directly to the CRO.

RECOVERY PLANNING

NN Group has determined a set of measures for early detection of and potential response to a crisis should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, and allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

RISK PROFILE

MAIN TYPES OF RISKS

The following principle types of risk are associated with NN Group’s business:

- ***Insurance risk***. Insurance risks are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.
- ***Business risk***. Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.
- ***Market and credit risk***. Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk is the risk of potential losses due to default by NN Group’s debtors (including bond issuers), trading counterparties or mortgage holders. In relation to market and credit risk, NN Group distinguishes between its general account businesses and its separate account businesses.
    - General account businesses. The general account businesses are those in which NN Group bears the market and credit risk. NN Group’s earnings from the general account businesses depend not only on underwriting, but also on the performance of NN Group’s investment portfolio. The general account includes NN Group’s life insurance and non-life insurance businesses. Market and credit risks include (i) equity risk, (ii) real estate risk, (iii) interest rate risk, (iv) credit spread risk, (v) counterparty default risk and (vi) foreign exchange risk.
    - Separate account businesses. The separate account businesses are those in which the policyholder bears the market and credit risk. NN Group’s earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (VA) portfolio, (ii) the group pension business in the Netherlands for which guarantees are provided, and (iii) other separate account business, primarily the unit linked business.
- ***Liquidity risk****.* Liquidity risk is the risk that one of NN Group’s entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner.
- ***Operational risk***. Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.
- ***Compliance risk****.* Compliance risk is the risk of impairment of NN Group’s integrity. It is a failure (or perceived failure) to comply with NN Group’s Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Group’s reputation and lead to legal or regulatory sanctions and financial loss.

ECONOMIC CAPITAL

Economic capital is NN Group’s internal measurement of the amount of capital required for the risks that NN Group is exposed to through its balance sheet, its business and its daily operations.

Risk management continued

NN Group determines economic capital as the amount of additional assets it must hold above the market value of its liabilities in order to withstand adverse movements in one year, based on a 99.5% level of confidence and before any adjustment for tax impact. A 99.5% level of confidence means that NN Group would be able to fulfil its obligations to its policyholders without requiring additional capital in 199 out of 200 annual scenarios. NN Group's economic capital is calculated in three steps.

- In the first step, NN Group models the market and credit risks to which NN Group's balance sheet is exposed using 50,000 stochastic real-world scenarios over a one-year time horizon, which are calibrated to historically observed market data. The model then quantifies the extent to which NN Group's assets must exceed its liabilities to ensure it is able to fulfil its policyholder obligations at a 99.5% level of confidence. This constitutes the economic capital for market and credit risk.
- In the second step, NN Group models insurance and business risk by defining stress scenarios at a 99.5% confidence interval using empirical data, when available, and expert judgement on the characteristics of NN Group's portfolio. With regards to longevity and expense risk, these stress scenarios are measured over a multi-year horizon. Mortality, morbidity, and property and casualty (P&C) risks are measured over a one-year horizon. These measurements are made at the individual business unit level and are modelled to capture the offsetting of certain risks, which occurs where certain risk events preclude the possibility of others. For example, if risk capital is based on the risk event that people will live longer (longevity risk), then the risk event that the same people will die earlier (mortality risk) is precluded. These risks are also aggregated with each other, as well as with the market and credit risk calculated in step one, using correlations based on expert judgement. As a result of this aggregation, the economic capital for the aggregate risk is less than the sum of the economic capital for the individual risks because the probability of all of the various risks materialising concurrently is less than 0.5%. This difference is the diversification benefit, reflecting the benefits of NN Group's risk pooling.
- In the third step, NN Group adds economic capital for operational risks and for business units that are not reflected in the internal model, without recognising any further diversification benefit. The economic capital for operational risk is based on the draft of the standard formula set out in Solvency II. Certain business units do not form part of NN Group's internal model. Depending on the type of business, the economic capital for these business units is approximated using commercial capital requirements, the Insurance Group Directive, local regulatory capital requirements or IFRS equity net of intangibles. See *"-Economic capital for entities outside of NN Group's internal model"*.
- NN Group's internal model uses, among others, statistics, observed historical market data, insurance policy terms and conditions, and NN Group's own judgment, expertise and experience, and includes assumptions as to the levels and timing of payment of premiums, benefits, claims, expenses, interest rates, credit spreads, investment portfolio performance (including equity market and debt market returns), longevity, mortality, morbidity and product persistency, and customer behaviour (including with respect to surrenders or extensions). NN Group follows strict governance, periodically revisiting these assumptions and regularly challenging them. NN Group also models risk to regulatory capital and IFRS results using models. As such, NN Group's economic capital calculations and risk sensitivities should be considered as estimates.

The table below sets out NN Group's economic capital by risk category as at 31 December 2013 and 2012, respectively.

Economic capital by risk category

	2013	2012
Insurance risk	**1,697**	1,918
Business risk	**2,128**	2,539
Market and credit risk:		
– General account	**3,211**	3,214
– Separate account	**964**	930
Diversification benefit between risk categories	**–2,505**	–2,783
Total modelled risk insurance operations	**5,495**	5,818
Operational risk	**531**	566
Economic capital of other business; NN Bank, IIM units on local required capital levels and other non-modelled	**988**	2,335
Total	**7,014**	8,719

The following sections will explain the risk profile, risk mitigation and risk measurement of all the categories above except for the diversification benefits between the different risk categories. Diversification benefits are recognised both on the risk category level (reflecting, for instance, diversification benefits between different countries, and diversification benefits between different risks within a particular risk category), as well as diversification benefits between risk categories. The diversification benefit between insurance risk, business risk, and market and credit risk of both the separate and general account decreased from 2012 to 2013. Insurance and business risks diversify well with each other and also with the market and credit risks, and in 2013 the reduced exposure to insurance and business risk resulted in an overall lower diversification benefit for NN Group.

The overall economic capital for NN Group decreased by over EUR 1.7 billion from 2012 to 2013 primarily because NN Group sold most of the Asian business units. This is further explained in the “Economic capital for entities outside NN Group’s internal model” section.

Impact of scope change on economic capital for 2012

The 2012 economic capital numbers have been updated to reflect the change in scope from Insurance Europe as reported in the 2012 Annual Report to numbers comparable to those reported for 2013.

Economic capital 2012 comparable in scope to 2013

	2012
As reported for ING Insurance EurAsia (excluding discontinued operations) in 2012	5,868
Changes in model and methodology	438
Include Japan Life and Japan Closed Block VA as modelled business after diversification	689
Include the other Asian held-for-sale business units as unmodelled business	1,504
Include legacy units and holding as unmodelled business	220
Economic capital for 2012 for NN Group	8,719

In 2013, NN Group continued to refine and update the internal model to prepare for the Solvency II Directive, increasing economic capital by EUR 438 million. Modelling changes included updates to the correlation matrix and a more granular modelling of asset risk.

Also, Japan Life and Japan Closed Block VA businesses were classified as discontinued operations until 4th quarter 2013 and therefore were not included in the scope of NN Group’s 2012 risk disclosures. The scope of the current disclosure includes the Japan Life and Japan Closed Block VA businesses, which were modelled using the internal model after diversification. The Asian held for sale insurance businesses for which transactions have been concluded during 2013 are included in the adjusted 2012 figures using 150% of the Solvency I requirements. The economic capital of other entities that are part of NN Group but were not reported in 2012 as part of ING Insurance Eurasia have been approximated with IFRS equity, as they were held for sale.

Solvency II

In 2013 NN Group continued the internal model pre-application process with regulators in order to ensure the model is approved as an internal model under the Solvency II regulations and is fit for local use in all of its regulated entities. Over the course of 2014, NN Group intends to move its economic capital calculations to full Solvency Capital Requirements (**SCR**), in accordance with the current draft of the Solvency II Directive. Differences in the calculation of SCR compared to current calculations of economic capital can arise from Omnibus II Directives, in particular related to long term guaranteed business. NN Group’s economic capital ratio, calculated as available financial resources/economic capital will be adjusted to own funds/SCR.

The table below provides a summary of the largest expected differences in the calculation methodology of available and required capital from the current internal methodology to Solvency II, as interpreted by NN Group. Several of the Solvency II items have not yet been defined well enough to provide a reliable estimate of the impact, but each one could potentially be material.

Risk management continued

	Available capital		Required capital	
	Current Available financial resources	**Solvency II Own funds**	**Current Economic capital**	**Solvency II capital requirement (SCR)**
Last liquid point [1]	20 years	20 years	30 years	20 years
Illiquidity adjustment	Illiquidity premium	Volatility balancer / matching adjustment	Illiquidity premium	Volatility balancer / matching adjustment
After-tax	No	Yes	No	Yes
Credit risk adjustment	No	Yes	No	Yes
Contract boundaries [2]	Internal model	Solvency II regulation	Internal model	Solvency II regulation
Loss absorption of taxes and fungability	Full capital fungability assumed	After tax and fungability is restricted	Full capital fungability assumed	Test the loss absorption capacity
Risk Margin	Market Value Margin based on internal approach	Less diversify-cation recognised than internal approach	Not applicable	Not applicable
Supervisory Action	Not applicable	Not applicable	Not applicable	Potential for capital add-on

[1] The last liquid point is the last point on the swap curve considered to be liquid and is used to define the discount rate under Solvency II.

[2] The future date at which a policy may be terminated or varied in such a way that, pursuant to the expected requirements of Solvency II, cash flows from premiums may not be recognised.

INSURANCE RISK

Insurance risks are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.

Risk profile

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements. While NN Group is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business in the Netherlands is significantly larger than the mortality risk in the other businesses, not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like available financial resources and available regulatory capital in the Netherlands. Longevity risk exposes NN Group primarily to mortality improvements and the present value impact is larger when interest rates are low.

NN Group’s morbidity risk lies in health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), or pays for expenses of medical treatment related to certain illness or disability events. The main exposures to morbidity risks within NN Group are the disability insurance policies underwritten in Netherlands Non-Life, the health and accidental death covers within the Corporate Owned Life Insurance business in Japan Life, and the healthcare insurance business in Greece.

The Netherlands Non-Life portfolio also includes Property & Casualty products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities.

Risk mitigation

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

By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract, and both life and non-life risk, NN Group reduces the likelihood that a single risk event will have a material impact on NN Group’s financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Group underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Group’s underwriting standards, product design requirements, and product approval and review processes.

Insurance risks are diversified between business units. Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

- tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk; for instance, every year Netherlands Non-Life and ING Re reinsure windstorm catastrophe risks. As windstorm risk diversifies well with other risks taken by NN Group, from 2014 NN Group has increased its tolerance level for this risk and decreased the re-insurance cover for windstorm catastrophe risk;
- tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics;
- reinsurance is used to manage risk levels (such as morbidity reinsurance in the COLI business in Japan Life). Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Group, and;
- NN Group participates in industry pools in various countries to mitigate the risk from terrorism.

Risk measurement

The table below sets out NN Group's economic capital for insurance risk as at 31 December 2013 and 2012, respectively.

Economic capital for insurance risk

	2013	2012
Mortality (including longevity)	**1,556**	1,805
Morbidity	**380**	385
P&C	**429**	367
Diversification benefit	**–669**	–639
Total	**1,696**	1,918

The economic capital for insurance risks is dominated by mortality risk, in particular by longevity risk in the Netherlands pension business. The economic capital amount related to longevity risk is also highly sensitive to the level of interest rates. The decrease in the mortality risk capital was mainly caused by a decrease in longevity risk capital because of the increase of the discount curve in 2013 and by surrenders and contract changes of defined benefit pension contracts. The morbidity risk is primarily due to Netherlands Non-Life illness and disability contracts, as well as Netherlands Life and Japan Life.

The P&C risk is primarily underwritten by Netherlands Non-Life and partially reinsured by ING Re. The higher windstorm catastrophe risk retention level for 2014 resulted in an overall increase in economic capital for P&C risk.

BUSINESS RISK

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

Risk profile

Policyholder behaviour risk

Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Group. Depending on the terms and conditions of the insurance policy and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. As a result, over the life of an insurance policy, a policyholder may seek to change the terms of that policy, and NN Group may consult with the relevant customer with a view to verifying that the relevant policy remains suitable for the policyholder, sometimes resulting in changes to the relevant insurance policy. Policyholder behaviour therefore affects the profitability of the insurance contracts. The risk that policyholders maintain their contracts longer than NN Group has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds, the pension business in the Netherlands, and the older higher interest rate guaranteed savings business in Europe. The risk that policyholders hold their contracts for a shorter period than NN Group has assumed relates to the life business in Japan and the unit linked businesses in the Central and Eastern European businesses.

Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers. For instance, changes in tax treatment may affect the tax efficiency of the products of the Japan Life corporate-owned life insurance (**COLI**) business.

The available regulatory capital in the Netherlands and the economic capital calculations for policyholder behaviour risk take into account the present value impact of changes in assumptions.

A change in policyholder behaviour assumptions would result in an immediate change in the present value of the liabilities used to determine Available Financial Resources, IFRS result before tax for variable annuities, and available regulatory capital in the Netherlands.

Expense risk

Total administrative expenses for NN Group in 2013 amounted to EUR 1,842 million. Part of these expenses is variable, depending on the size of the business and sales volumes, and part are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of NN Group's expenses, and is the risk that actual per policy expenses in the future exceed the assumed per policy expenses. A significant portion of the fixed expenses is incurred in the closed block operations of Netherlands Life, where NN Group is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase.

A change in expense risk assumptions, though it would be reflected over time through IFRS result before tax, would result in an immediate change in the present value of the liabilities used to determine Available Financial Resources and available regulatory capital in the Netherlands.

Risk mitigation

Policyholder behaviour risk

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

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

Expense risk

Several initiatives have been put in place to manage expenses, such as the restructuring of Netherlands Life and NN Group's head office in the Netherlands. These initiatives also seek to convert fixed expenses into variable expenses so that expenses vary in accordance with the size of the in-force portfolio. This is particularly relevant for the closed blocks of business, the Dutch individual life and the Japan Closed Block VA businesses.

Risk measurement

The table below sets out NN Group's economic capital for business risk as at 31 December 2013 and 2012, respectively.

Economic capital for business risk

	2013	2012
Policyholder behaviour	**1,096**	1,400
Expense	**1,388**	1,663
Diversification benefit	**–356**	–525
Total	**2,128**	2,538

The main contributors to policyholder behaviour risk in 2013 are the corporate owned life insurance business in Japan Life, Netherlands Life, the unit linked business in Europe, and the Japan Closed Block VA. Economic capital for policyholder behaviour risk decreased due to the increase of the discount curve in Netherlands Life and the weakening JPY.

Over 80% of the expense risk capital is driven by Netherlands Life. The economic capital amount related to expense risk in Netherlands Life is sensitive to the level of interest rates, and the decrease in the expense risk capital was primarily attributable to the increase of the discount curve in 2013, together with a decrease in overall expenses.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated and therefore receive a benefit given the low likelihood that they will both occur concurrently.

MARKET AND CREDIT RISK: GENERAL ACCOUNT

Market and credit risks are the risks related to the impact of financial markets on NN Group's balance sheet. In relation to market and credit risk, NN Group distinguishes between its general account and its separate account. The table below sets out NN Group's asset class market values for the general account as at 31 December 2013 and 2012 (in this table derivatives are excluded and specific risk management asset classifications and valuations are applied). 2012 figures are on a comparable basis to 2013.

General Account Assets

	Market value	% of total	Market value	% of total
	2013	**2013**	2012	2012
Fixed income	**79,473**	**83%**	79,104	83%
Government bonds	**44,251**	**46%**	50,831	53%
Financial bonds	**4,452**	**5%**	5,845	6%
Corporate bonds	**6,453**	**7%**	7,503	8%
Asset Backed Securities	**7,199**	**7%**	7,267	8%
Mortgages	**14,218**	**15%**	5,398	6%
Other Loans	**2,900**	**3%**	2,260	2%
Non-Fixed income	**10,436**	**11%**	10,017	10%
Common & Preferred Stock	**2,500**	**3%**	2,087	2%
Private Equity	**943**	**1%**	855	1%
Mutual Funds	**2,336**	**2%**	2,020	2%
Real Estate	**4,657**	**5%**	5,055	5%
Cash	**6,749**	**7%**	6,778	7%
Total Investments	**96,658**	**100%**	95,899	100%

The economic capital for the fixed income bonds is calculated within spread risk and the economic capital for the fixed income loans (to the extent applicable) within counterparty default risk. For the non-fixed income assets, equity and real estate, NN Group uses asset-specific risks to calculate economic capital.

The table below sets out NN Group's economic capital for the general account as at 31 December 2013 and 2012, respectively.

Economic capital general account

	2013	2012
Equity risk	**1,406**	1,162
Real estate risk	**744**	807
Interest rate risk	**262**	194
Credit spread risk net of illiquidity premium offset	**2,234**	2,521
Foreign exchange risk	**213**	377
Inflation risk	**51**	8
Counterparty default risk	**519**	354
Diversification benefit	**–2,219**	–2,208
Total	**3,210**	3,215

Market and credit risk of the general account is dominated by credit spread and equity risk. Whilst there were significant movements in the underlying risks, overall the economic capital for market and credit risk remained fairly stable. The inflation risk relates to the disability business of Netherlands non-life.

The following sections provide more detail per risk type.

Equity risk

Equity risk in the general account is due to impact of changes in prices of directly held equities and equity derivatives such as futures and options.

Risk profile

The table below sets out NN Group's general account equity assets as at 31 December 2013 and 2012, respectively.

Risk management continued

General accounts equity assets

	2013	2012
Common & Preferred Stock	**2,500**	2,087
Private Equity	**943**	855
Mutual Funds	**2,336**	2,020
Total	**5,779**	4,962

Overall equity exposure increased due to positive revaluations and net purchases of equities in line with strategic asset allocation.

The equity investments held in the Netherlands are part of the so-called “5% holdings”, in which investors who hold 5% or more of the outstanding shares of a stock receive favourable tax treatment in the Netherlands. About EUR 2.3 billion is invested in these 5% holdings. For these equity investments, NN Group may not be able to liquidate its position quickly because of the size of these holdings.

NN invests in private equity through its holding of Parcom Capital Management. Parcom Capital Management is a captive mid-market private equity firm active in the Netherlands, France and Germany.

Price changes in equity holdings and equity-related derivatives are directly reflected in Available Financial Resources, the IFRS balance sheet and in the regulatory available capital in the jurisdictions in which NN Group has general account equity holdings. Only value movements of derivatives and impairments of equity holdings are reflected in the IFRS result before tax.

Risk mitigation

Equity exposures belong to a well-diversified asset portfolio of an insurance company with long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

From time to time, NN Group protects the downside risk of the general account equity portfolio by buying put options and other hedge instruments. The most recent occasion on which NN Group did so was during the euro crisis in 2011-2012.

Risk measurement

Economic capital for equity risk in the general account increased from EUR 1,162 million in 2012 to EUR 1,406 million in 2013. This exposure includes mutual funds with both fixed income and equity underlying positions. On a look-through basis in the overall exposure, the weighting of equities, which requires a higher economic capital than fixed income investments, increased due to stock market developments.

Real estate risk

Real estate risk is the risk of loss of market value of real estate assets due to a change in rental prices, required investor yield, or other factors.

Risk profile

NN Group’s general account real estate exposure decreased from EUR 5,055 million at 31 December 2012 to EUR 4,657 million as at 31 December 2013. The real estate exposure is mainly present in Netherlands Life and Netherlands Non-Life. NN Group has two different categories of real estate: (i) investments in real estate funds and real estate directly owned, and (ii) investments in buildings occupied by NN Group. Several of the real estate funds owned by NN Group include leverage and therefore the actual real estate exposure is larger than NN Group’s positions in these funds. During 2013, the gross real estate exposure decreased mainly as a result of market value decreases.

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

The table below sets out NN Group’s real estate exposure by sector type excluding leverage as at 31 December 2013 and 2012, respectively. Real estate is valued at fair value in the economic capital model and the available regulatory capital calculations in the Netherlands. Fair value revaluations of 53% of the real estate portfolio directly affect the IFRS result before tax.

Risk management continued

General Account real estate assets by sector

	Revalued through P&L	Not revalued through P&L	Revalued through P&L	Not revalued through P&L
	2013	**2013**	2012	2012
Residential	**3%**	**17%**	2%	17%
Office	**10%**	**9%**	14%	10%
Retail	**30%**	**9%**	28%	7%
Industrial	**9%**	**0%**	8%	0%
Other	**2%**	**12%**	3%	11%
Total	**54%**	**47%**	55%	45%

Risk mitigation

Real estate exposures belong to a well-diversified asset portfolio of an insurance company holding long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement

Economic capital for real estate risk decreased from EUR 807 million at year-end 2012 to EUR 744 million at year-end 2013 due to reduced real estate exposures and lower leverage in the real estate funds.

Interest rate risk

Interest rate risk is the impact of interest rate changes on available capital as a result of the associated change in the value of the assets and liabilities. NN Group generally uses swap curves as benchmark interest rate curves when assessing interest rate risk.

Risk profile

The table below provides an overview of NN Group's general account undiscounted policyholder liability cash flows (net of expenses and commissions) by maturity.

General account liabilities' annual undiscounted cash flows (net of expenses and commissions) (1)

	Liabilities originated in					
	Eurozone EUR		Japan JPY(2)		Other Currencies(2)	
Maturities	**2013**	2012	**2013**	2012	**2013**	2012
1	**–4,627**	–4,010	**222**	138	**–183**	–143
2	**–4,148**	–3,971	**–84**	–174	**–177**	–306
3	**–5,235**	–4,317	**–307**	–329	**–168**	–209
3-5	**–7,452**	–7,356	**–870**	–938	**–352**	–561
5-10	**–15,076**	–15,109	**–2,204**	–2,285	**–786**	–927
10-20	**–23,545**	–23,219	**–2,357**	–2,718	**–1,087**	–1,208
20-30	**–15,422**	–15,977	**–907**	–973	**–413**	–489
30+	**–14,752**	–16,976	**–577**	–515	**–82**	–95
Total	**–90,257**	–90,935	**–7,084**	–7,794	**–3,248**	–3,938

(1) The “minus” sign in the table mean cash outflow from NN Group to the policyholders

(2) Japan and Other liabilities are presented at constant FX of 31December 2013. Other includes CZK, HUF, PLN, RON and USD.

To effectively match its assets to liabilities, NN Group looks at the undiscounted liability cash flows and then determines which assets to purchase to reduce interest rate risk. As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows, which relate primarily to the pension business in the Netherlands.

Liability valuations depend on the discount rate applied and are sensitive to movements in that discount rate, particularly given that approximately one third of the liability cash outflows occur from year 20. Different policyholder liability discount rates apply depending on the accounting or regulatory framework; thus, the interest rate risk differs by accounting regime.

- ***IFRS result before tax***. Under IFRS-EU, NN Group values its general account policyholder liabilities using a discount rate that is set when the policies are sold, and subjects them to a reserve adequacy test using current interest rates. As a result, changes in interest rates do not affect IFRS earnings through liability valuations, unless the adequacy of the reserves of a segment falls below the 50th percentile level. As of 1 January 2014, NN Group's reserves for all segments are adequate at the 90th percentile. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded as amortised cost value. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates. See "-IFRS result before tax sensitivities".
- ***Available regulatory capital (outside the Netherlands)***. For the purposes of available regulatory capital in all jurisdictions outside the Netherlands in which NN Group operates, general account policyholder liabilities are valued at a single discount rate set when the policies are sold. General account fixed income assets are typically held at the same value as is reported on the IFRS balance sheet, although in several jurisdictions such as Japan, Spain and Greece, certain assets can be held at amortised cost on the regulatory balance sheet. Changes in interest rates affect available regulatory capital in these jurisdictions when fixed income assets are valued at market value, and the liability valuations are insensitive to interest rate movements.
- ***Available regulatory capital (Netherlands).*** For the purposes of available regulatory capital in the Netherlands, general account policyholder liabilities are measured at fair market value based on the DNB swap curve. In 2013 NN Group moved from the discount curve based on the ECB AAA yield curve to the DNB swap curve, which, amongst other things, is more liquid and less subject to dislocations. Since mid-2012, the DNB curve has been adjusted to include an ultimate forward rate (**UFR**), extrapolating the curves beginning in year 20 to an ultimate forward rate of 4.2% at year 60. General account fixed income assets are held at market value, thereby creating interest rate sensitivities in the available regulatory capital, which are the same as the liability sensitivities for matching cash flows up to 20 years. However, mismatches occur for longer-term cash flows due to the application of the UFR.
- ***Economic capital***. To determine economic capital, NN Group uses a swap curve plus an illiquidity premium to discount the insurance liabilities. The illiquidity premium is treated as part of the credit spread risk. NN Group extrapolates the EUR swap curve from the 30 year point onwards to the UFR, as swap markets tend to be highly illiquid for durations longer than 30 years. To determine economic capital, all assets are valued at market value and therefore subject to interest rate risk. The economic capital for interest rate risk therefore primarily depends on the level of cash flow matching between assets and liabilities.

Risk mitigation

NN hedges its economic interest rate exposure by investing in long-term bonds matching liability maturities and further reduces the remaining interest rate gap through purchases of receiver swaps and swaptions. Interest rate risk is also mitigated through a disciplined pricing and renewal strategy in the Dutch corporate pensions business.

Risk measurement

The Economic capital for general account interest rate risk increased from EUR 194 million at year-end 2012 to EUR 262 million at year-end 2013. This economic capital is small relative to the general account insurance provisions, due to effective ALM and interest rate hedges. The increase in capital is modest for the total balance sheet size and reflects a small reduction in asset duration.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening due to increased default expectation, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the general account liabilities.

Risk profile

The nature of long-term insurance liabilities gives insurers the potential to hold fixed income assets even in adverse market conditions, thereby continuing to receive the coupons and the principal amount at maturity. Credit spread risk materialises in different ways depending on the different valuation curves used to discount assets and liabilities in order to determine these metrics.

Risk management continued

- ***IFRS result before tax***. Market value movements of general account fixed income assets do not impact the IFRS result before tax, as the assets are classified as available-for-sale. Therefore, there is no sensitivity to credit spread risk in IFRS result before tax. However fixed income securities might be subject to impairments under IFRS, affecting the IFRS result before tax.
- ***Available regulatory capital (outside the Netherlands)***. For the purposes of available regulatory capital in all jurisdictions outside the Netherlands in which NN Group operates, general account fixed income assets are typically held at the same value as is reported on the IFRS balance sheet, although in several jurisdictions such as Japan, Belgium, Spain and Greece, certain assets can be held at amortised cost on the regulatory balance sheet. In those cases where assets are held at fair, value credit spreads affect available regulatory capital through fixed income asset valuations, whereas the liability valuations are insensitive to credit spread movements.
- ***Available regulatory capital (Netherlands)***. On the regulatory capital balance sheet, general account fixed income assets are held at market value, thereby creating credit spread sensitivities in the available regulatory capital. The long duration of NN Group's fixed income assets amplifies the impact of credit spread sensitivities. By contrast, the liabilities are not sensitive to credit spread movements.
- ***Economic capital***. To determine economic capital, general account fixed income assets are held at market value, thereby creating credit spread sensitivities. Just as in the available regulatory capital (Netherlands), the long duration of NN Group's fixed income assets amplifies the impact of credit spread sensitivities for economic capital. The discount rate to value the insurance liabilities consists of the swap rate plus an illiquidity premium. NN Group uses the spreads of a covered bond index to determine the illiquidity premium at a given point in time. The fact that the bonds are fully collateralised means that there is limited credit risk in relation to these bonds. Any spread movements in the covered bond index therefore represent illiquidity related to demand and supply characteristics and/or market sentiment at any point in time. As NN Group does not invest in the covered bond index to back the general account liabilities, there can be mismatches between illiquidity experienced on NN Group's own assets and the illiquidity depicted by the covered bond index.

The table below sets out the market value of NN Group's general account fixed-income bonds which are subject to credit spread risk by type of issuer at 31 December 2013 and 2012, respectively.

General account fixed-income bonds by type of issuer (1)

	Market value		Percentage	
	2013	2012	**2013**	2012
Government Bonds	**44,251**	50,831	**71%**	71%
Asset Backed Securities	**7,199**	7,267	**12%**	10%
Financial Institutions	**4,452**	5,845	**7%**	8%
Utilities	**1,501**	1,815	**2%**	3%
Transportation & Logistics	**857**	449	**1%**	1%
Telecom	**795**	1,013	**1%**	1%
General Industries	**638**	591	**1%**	1%
Food, Beverages & Personal Care	**622**	675	**1%**	1%
Other Corporate and Financial Bonds	**2,040**	2,961	**3%**	4%
Total	**62,355**	71,447	**100%**	100%

(1) Bond values include accrued interest

NN primarily uses long-term bonds issued by central governments and other public agencies of governments to match its long term liabilities as such bonds are amongst the few tradable fixed income securities generating cash flows for 20 years and longer. The table below sets out the market value of NN Group's general account assets invested in government bonds by country and maturity.

Risk management continued

General account market value government bond exposures (1)

	Rating (2)	Domestic exposure (3)	Market value of government bond 2013 by number of years to maturity									
			1	2	3	3-5	5-10	10-20	20-30	30+	**Total 2013**	Total 2012
Germany	AAA	0%	**155**	**70**	**115**	**331**	**263**	**3,288**	**4,215**	**153**	**8,590**	12,225
Netherlands	AAA	98%	**17**	**132**	**82**	**104**	**1,210**	**1,458**	**3,399**		**6,402**	7,183
France	AA+	0%	**64**	**100**	**44**	**108**	**265**	**276**	**2,472**	**2,197**	**5,526**	5,586
Belgium	AA	41%	**141**	**242**	**210**	**830**	**1,413**	**911**	**1,498**	**69**	**5,314**	4,739
Japan	AA-	99%	**276**	**68**	**128**	**331**	**1,425**	**1,740**	**837**	**294**	**5,099**	8,183
Austria	AAA	0%	**210**	**44**	**85**	**174**	**803**	**1,462**	**588**	**728**	**4,094**	3,937
Italy	BBB	0%	**21**	**109**	**21**	**63**	**178**	**880**	**124**	**5**	**1,401**	1,393
Multilateral	AAA	2%	**81**	**65**	**132**	**44**	**345**	**285**	**376**	**34**	**1,362**	719
Finland	AAA	0%	**7**	**16**	**14**	**49**	**343**	**355**	**324**		**1,108**	1,079
Spain	BBB-	65%	**3**	**25**	**14**	**60**	**46**	**513**	**387**		**1,048**	907
United States	AAA	0%	**39**	**401**	**31**	**190**	**51**	**4**	**177**		**893**	1,018
Others		46%	**227**	**264**	**364**	**524**	**1,010**	**676**	**348**		**3,413**	3,862
Total		37%	**1,241**	**1,536**	**1,240**	**2,808**	**7,352**	**11,848**	**14,745**	**3,480**	**44,250**	50,831

(1) Bond values include accrued interest.
(2) NN uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds
(3) Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.

Exposures to Dutch, German and French government bonds are primarily held by Netherlands Life. Of the EUR 15 billion German and Dutch government bonds held by NN Group, more than half will mature after year 20, and more than 80% of the EUR 5.5 billion French government bonds held by NN Group will mature after year 20. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. With regards to Central and Eastern Europe, government bond exposures in Poland, Czech Republic, Hungary, Slovakia, Romania, and Turkey are mainly domestically held). In 2011 and 2012, NN Group reduced its Greek, Italian, Spanish and French government bond exposures in response to the deteriorating credit ratings of these countries and to alleviate concentration risk. The remaining Greek government bonds are all held by NN Group's Greek business unit, and 65% of the Spanish government bonds are held by NN Group's Spanish business unit. During 2013, NN Group began reducing its German and Dutch government bond positions to invest in higher-yielding asset classes. It also began reducing its holdings of government bonds in Japan where such bonds were held for liquidity reasons.

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

General account market value non-government fixed income securities (1)

	Market value of non-government bond securities 2013 by number of years to maturity									
	1	2	3	3-5	5-10	10-20	20-30	30+	**Total 2013**	Total 2012
AAA	**158**	**90**	**280**	**691**	**1,514**	**972**	**1,299**	**1,977**	**6,981**	6,732
AA	**238**	**140**	**300**	**323**	**620**	**549**	**320**		**2,490**	3,615
A	**348**	**472**	**700**	**880**	**1,344**	**465**	**410**	**95**	**4,714**	6,053
BBB	**321**	**248**	**291**	**411**	**692**	**405**	**149**	**648**	**3,165**	3,209
BB	**87**	**8**	**34**	**97**	**155**	**9**		**183**	**573**	616
B	**19**	**15**	**18**	**23**	**26**		**57**		**158**	226
CCC								**6**	**6**	161
Other	**1**				**12**	**2**			**15**	2
Total	**1,172**	**973**	**1,623**	**2,425**	**4,363**	**2,402**	**2,235**	**2,909**	**18,101**	20,614

(1) Bond values include accrued interest.

The table below sets out NN Group's holdings of asset-backed securities by market value of asset type and the percentage of NN Group's total general account asset-backed securities portfolio as at 31 December 2013 and 2012, respectively.

Risk management continued

General Account Asset-backed securities

	Market value 2013	% of total 2013	Market value 2012	% of total 2012
RMBS	**3,822**	**53%**	4,356	60%
Car loans	**1,848**	**26%**	1,415	19%
Credit cards	**463**	**6%**	382	5%
CMBS	**358**	**5%**	343	5%
Student loans	**251**	**3%**	318	4%
SME loans	**233**	**3%**	227	3%
Consumer loans	**117**	**2%**	134	2%
Other	**106**	**1%**	91	1%
Total	**7,198**	**100%**	7,266	100%

Risk mitigation

NN aims to maintain a low-risk, well diversified credit portfolio. NN Group has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN Group has increased its investments in non-listed and own-originated assets. Going forward, the volatility in NN Group's credit spread risk will continue to have possible short term negative effects on the balance sheet. However, in the long run, these investments will back the long-dated and illiquid liabilities well. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement

The economic capital for credit spread risk reflects, with 99.5% level of confidence, the maximum amount of capital needed to absorb the impact of spreads widening. Credit spreads are stressed depending on the assets with regard to the credit rating, duration, and region, to determine the economic capital for spread risk. Furthermore, the illiquidity premium on the liabilities is stressed to dampen the impact of credit spread stresses.

The table below sets out NN Group's general account economic capital for credit spread risk.

General accounts economic capital for credit spread risk

	2013	2012
Credit spread risk assets	**5,617**	5,718
Illiquidity premium offset	**–3,383**	–3,197
Total Credit Spread risk net of illiquidity premium offset	**2,234**	2,521

Counterparty Default risk

Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Group. The economic capital for counterparty default risk is primarily based on the associated issuer's probability of default (**PD**) and the estimated loss-given-default (**LGD**) on each individual asset combined with diversification across assets. Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Risk profile

Counterparty default risk emanating from residential mortgages and policy loans (retail credit risk) represent the majority of the portfolio of economic capital for counterparty default risk.

Loans form a relatively small source of credit risk for NN Group (as compared to bonds). Other sources of credit risk include the claims on counterparties from over-the-counter derivatives, money market exposures and reinsurance.

General account mortgages, reinsurance and loans and advances

	2013	2012
Mortgages	**14,218**	5,398
Reinsurance	**331**	348
Other loans	**2,900**	2,260
Cash	**6,749**	6,778
Total	**24,198**	14,784

NN Group has notably increased its exposure to Dutch residential mortgages during the course of 2013, both at NN Bank as well as Netherlands Life. In the third quarter, EUR 4.7 billion of Dutch residential mortgage loans were transferred from Westland Utrecht Bank (WUB) to NN Bank's mortgage loan portfolio. In the fourth quarter of 2013, Netherlands Life's exposure to residential mortgages also increased, with the transfer of EUR 2.6 billion residential mortgages from ING Bank to Netherlands Life. As of 31 December 2013, the total general account risk exposure to mortgages is EUR 6.23 billion for NN Bank and EUR 7.99 billion for Netherlands Life.

Risk mitigation

NN Group uses different credit risk mitigation techniques. For retail lending portfolios, mortgages on the house, pledges of insurance policies, or retaining the investment accounts of clients are all important elements of credit risk mitigation. For OTC derivatives, the use of ISDA master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average indexed loan to value, at NN Bank and Netherlands Life stands at 92% and 96% respectively. The perceived high LTV is due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2013 with regards to mortgage interest deductibility, a shift from essentially interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 26% and 20% at NN Bank and Netherlands Life respectively at 31 December 2013.

The credit portfolio is under constant review to ensure troubled assets are identified early and managed properly. With regards to (mortgage) loans, all loans with past due financial obligations of 90 days or more are classified as non-performing loans (NPLs). All loans not classified at initial recognition as being either (1) assets at market value through profit-and-loss, (2) assets held for trading, or (3) assets available-for-sale are measured against amortised cost value and are subject to impairment review. For bonds and other fixed income securities, criteria for impairment include (but are not limited to) expected and actual credit losses resulting from e.g. failure to pay, market information regarding expected and actual credit losses, as well as other evidence that the issuer/borrower will be unable to meet its financial obligations. Material breaches in financial covenants can also trigger the reclassification of a loan as being impaired.

Credit quality: NN Group mortgage loan portfolio, outstanding

	Netherlands Life		NN Bank	
	2013	2012	**2013**	2012
Performing mortgage loans	**7,769**	5,107	**6,118**	136
Past due mortgage loans (1–90 days)	**185**	129	**93**	2
Non-performing mortgage loans (more than 90 days past due)	**37**	24	**17**	0.5
Total	**7,991**	5,260	**6,228**	139

If a payment of interest or principal is more than one day late, the loan is considered "past-due". If the arrear still exists after 90 days, the loan is categorised as non-performing loan. It keeps this status until the arrear is resolved. Of the mortgage loans that are past-due, 68% have been past-due for 1-30 days.

Aging analysis (past due but not impaired): NN Group mortgage portfolio, outstanding

	Netherlands Life		NN Bank	
	2013	2012	**2013**	2012
Past due for 1–30 days	**125**	96	**64**	2
Past due for 31–60 days	**42**	23	**22**	0
Past due for 61–90 days	**19**	10	**8**	0
Total	**186**	129	**94**	2

Risk measurement

The economic capital backing NN Bank's portion of the mortgage exposure is accounted for in non-modelled business because NN Bank applies Basel II for capital purposes (see "-Economic capital for entities outside NN Group's internal model"). The economic capital backing the Netherlands Life's portion of the mortgages is calculated in the counterparty default risk. The total mortgage exposure is managed at company level and included in the tables above.

Economic capital for counterparty default risk increased from EUR 354 million at year-end 2012 to EUR 519 million at year-end 2013. This increase is mainly due to the increased residential mortgage portfolio at Netherlands Life. As noted, related economic capital for fixed income bonds is included fully in credit spread risk.

Risk management continued

Foreign exchange risk

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

Risk profile

FX transaction risk can occur on a local entity level, while FX translation risk can occur when items included in the financial statements of each of NN Group's entities are measured using the country's functional currency instead of NN Group's reporting currency, the Euro.

Risk mitigation

The FX risk at the local entity level is mitigated by limiting investment to the local currency assets. The exceptions are Japan Life, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts and in the large general account portfolio of Netherlands Life. The FX risk at the holding level is managed using FX forward contracts.

Risk measurement

Economic capital for foreign exchange risk decreased from EUR 377 million at year-end 2012 to EUR 213 million at year-end 2013 primarily due to the weakening of the yen in 2013.

MARKET AND CREDIT RISK: SEPARATE ACCOUNT

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

Variable annuity portfolio

Risk profile

Variable annuity business overview 2013

	Number of policies	Account value (1)	Net Amount at Risk (2)	Additional IFRS Reserve for Guarantees	Average Remaining Years
Variable Annuity Japan GMAB	**299,563**	**11,575**	**458**	**811**	**3.2**
Variable Annuity Japan GMDB (3)	**46,743**	**3,112**	**205**	**57**	**7.1**
Variable Annuity Europe	**40,931**	**1,238**	**33**	**25**	**7.2**

(1) The Account value is the value of the underlying funds which belong to the policyholder.

(2) The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.

(3) The Additional IFRS reserve for the guarantees backing the GMDB block as of 1 January 2014 is EUR219 million higher (total EUR 276 million) due to the application of fair value accounting.

Variable annuity business overview 2012

	Number of policies	Account value (1)	Net Amount at Risk (2)	Additional IFRS Reserve for Guarantees	Average Remaining Years
Variable Annuity Japan GMAB	317,402	13,150	2,841	3,064	4.2
Variable Annuity Japan GMDB (3)	60,050	3,744	1,346	253	9.5
Variable Annuity Europe	44,30	1,147	47	78	7.5

(1) The Account value is the value of the underlying funds which belong to the policyholder.

(2) The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.

Risk management continued

From a risk management perspective, NN Group distinguishes three blocks of variable annuities:

- ***Guaranteed minimum accumulation benefit* (GMAB) *products of Japan Closed Block VA*:** Under this type of variable annuity, a minimum guaranteed benefit is paid upon death or at maturity of the policy at the end of the initial investment period. The survival guarantee is only available up until the original policy term, mainly 10 years, and cannot be changed. The minimum guaranteed benefit is either a single premium or an amount which may lock-in at a higher guarantee level depending on the product. The GMAB product was sold from 2005 until 2009 in Japan through banks and security brokers. The guarantees of this product were highly in the money but with the improving stock markets in Japan and the weakening of the JPY, have moved closer to at-the-money. The volatility risks of the options and guarantees increase when the option is at the money and closer to maturity.
- ***Guaranteed minimum death benefit* (GMDB) *products of Japan Closed Block VA***: Under this type of variable annuity, a minimum guaranteed benefit is paid upon the death of the policyholder. The GMDB product has a generally predefined term of 10 years and provides the option to extend the guarantee of the policy during the investment phase up to age 90, and in the case of some policies, also allow further extension to whole of life. At death, the product pays a maximum of the guaranteed value and the account value. During the insured period, the client can receive the maximum of the minimum guaranteed benefit and the account value at death or at survival after the term of the product. There are different funds underlying the policyholder account value, including Japanese equity, Japanese bond, global equity and global bond funds. The value of the minimum guarantee depends on the level and volatility of equity, bond and foreign exchange markets.
- ***VA products of Insurance Europe***: NN Group has been selling VA products in Europe since 2008, including in Belgium, Italy, Luxembourg, Poland, Spain and Hungary. The products mostly have minimum guaranteed living benefits such as survival benefit or withdrawal benefits.

The number of policies in the Japan Closed Block VA will have decreased by more than 86% by the end of 2019, driven by the maturity of the GMAB products.

Risk mitigation

NN has hedging programs in place for the Japan Closed Block VA business and the European variable annuity business. These hedging programs target equity, interest rate, and FX risks. The market risks that remain for the Japan Closed Block VA business are increases to market volatility, both implied and realised, and basis risk. Basis risk is the difference in market movements between the benchmarks used for hedging and the actively managed funds in the separate account. The table below sets out the estimated changes in the value of these options and guarantees, and the corresponding estimated changes in the value of the assets hedging this portfolio for the years ended 31 December 2009 through 2013 with regard to the Japan Closed Block VA.

Closed Block VA Japan Asset and Liability Movements

	2013	2012	2011	2010	2009
Change in Value of Policyholder Guarantee	**2,411**	1,652	–748	–481	543
Change in Value of Hedge Assets	**2,367**	1,482	–582	–537	458
Economic Hedge Result	**44**	170	–166	56	85

The change of the value of the policyholder guarantees depends on market movements. The value of the Japan Closed Block VA guarantees, which was considerable at year-end 2008 due to the credit crisis, moved significantly over the past years, decreasing in 2012 and 2013 as a result of the economic stimulus packages in Japan. In 2008 the hedge program was not yet fully developed and was therefore only partially able to follow strong market movements, resulting in significant hedge losses. Hedge losses were incurred in 2011 as well, partially attributable to significant spread movements that were not hedged in 2011.

Separate account guaranteed group pension business in the Netherlands
Risk profile

Separate account guaranteed group pension business in the Netherlands

	2013	2012
Account value	**10,858**	12,487
Additional IFRS reserve for guarantee	**606**	744

In the Dutch separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded the contract with NN Group. Regardless of actual returns on these investments, NN Group guarantees pension benefits for the beneficiaries under the contract. Contracts are typically re-negotiated every five years, but the guarantee obligations to the beneficiaries survive termination of the contract with the sponsor employer unless otherwise agreed.

The sponsor employer selects the investments based on a basket of equity and fixed income instruments and real estate and pays a fee for the guarantee. The value of the guarantee that NN Group provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

Risk mitigation

NN currently hedges the value of the guarantees it provided under group pension contracts in the Netherlands. For this purpose, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge program includes equity basket options, swaps and equity futures. Upon contract renewal, NN Group offers policyholders defined contribution products with investments in portfolios that NN Group can more easily hedge, thus reducing the risk to NN Group. As of August 2013, NN Group aims to hedge the full economic risk of the guarantee provided. Before August 2013, the hedge was aimed at mitigating a combination of IFRS earnings volatility and regulatory capital volatility.

Other separate account business

Risk profile

The other separate account business primarily consists of unit linked insurance policies, which provide policyholders with fund selection combined with an insurance cover. In a unit linked policy, the investment risk is borne by the policyholder, although there are some unit linked products where NN Group has provided guarantees on the performance of specific underlying funds. Unit linked products without guarantees do not expose NN Group to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds.

Risk mitigation

The market risks of the unit linked and other separate account business are managed at the design of the product. Currently NN Group does not hedge the market risks related to the present value of future fee income derived from this business.

Risk measurement

NN determines economic capital for the market and credit risks of the separate account business in aggregate through direct modelling or applying a hedge effectiveness ratio.

The table below sets out the economic capital for the market and credit risk of the separate account businesses as at 31 December 2013 and 2012, respectively.

Economic capital for the separate account businesses

	2013	2012
Variable annuity	**591**	812
Separate account guaranteed group pension business in the Netherlands	**264**	101
Other separate account business (unit linked)	**217**	187
Diversification benefit	**–108**	–170
Total	**964**	930

The decrease in the variable annuity economic capital was due to a weakening JPY over the course of 2013. The increase in economic capital in the group pension business in the Netherlands was mainly due to changes in the hedging position over the course of the year. Considering that the size of the group pension business in the Netherlands is EUR 10.9 billion, the overall risk on this portfolio remains relatively low and well-hedged. The increase in assets under management of the funds underlying the other separate account business resulted in a higher present value of future fee income and therefore higher risk capital related to this future fee income.

LIQUIDITY RISK

Liquidity risk is the risk that one of NN Group’s entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due.

RISK PROFILE

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

RISK MITIGATION

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

NN defines three levels of Liquidity Management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company’s ability to respond to a potential crisis situation. Two types of liquidity crisis events can be distinguished: a market event and an NN Group specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Group does not hold a specific economic capital for liquidity risk in its insurance economic capital model as liquidity is sufficiently available in the insurance business units.

OPERATIONAL RISK

RISK PROFILE

Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The operational risk management areas can be defined as given below:
- ***Control and processing risk***: the risk due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing.
- ***Fraud risk***: the risk of loss due to abuse of procedures, systems, assets, products or services of NN Group by those who intend to unlawfully benefit themselves or others.
- ***Information (technology) risk***: the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability.
- ***Continuity and security risk***: the risk of threats that might endanger the continuity of business operations and the security of our employees.
- ***Unauthorised activity risk***: the risk of *misuse* of procedures, systems, assets, products and services.
- ***Employment practise risk***: the risk of loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events.

RISK MITIGATION

For operational risk NN Group has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

Operational risk assessments are done not only based on historic data but also on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

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

NN conducts regular risk and control monitoring to measure and evaluate the effectiveness of the key risks and key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards.

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

Risk management continued

Risk measurement

NN Group's economic capital for operational risk was EUR 531 million and EUR 566 million as at 31 December 2013 and 2012, respectively. The economic capital is calculated based on the standard formula for Solvency II. As it is additive to the total economic capital, then it should be considered as net of diversification with other NN Group risks.

COMPLIANCE RISK

RISK PROFILE

Compliance risk is the risk of impairment of NN Group's integrity. It is a failure (or perceived failure) to comply with NN Group's Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

RISK MITIGATION

NN Group's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The compliance function works with a scorecard process to annually evaluate the level to which the compliance risk management framework is embedded in each business. NN Group continuously enhances its compliance risk management program to ensure that NN Group complies with international standards and laws.

NN Group separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. In addition to effective reporting systems, NN Group has a whistle blower procedure which protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or business principles. NN Group also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, Chinese walls and confidential and inside information, as well as a code of conduct for its personnel.

NN is fully committed to complying with all applicable sanction legislation and with all obligations and requirements under those applicable laws, including freezing and reporting obligations with regard to transactions involving a U.S., EU or UN sanction target. Furthermore, NN Group designates specific countries as ultra high risk and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Certain exceptions on this policy are allowed after express and case-specific consent, and provided that the applicable sanctions laws and regulations are met. At present, the specified countries are Myanmar, North Korea, Sudan (North Sudan and South Sudan), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, U.S. and other sanctions regimes. NN Group has had a sanctions policy in place since 2007 and has a mandate to run down any existing commitments. As such, remaining exposure and contacts arise solely in the context of NN Group's on-going efforts to run down the legacy portfolio of commitments.

NN Group performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. For more information on the status of the unit linked legal proceedings in the Netherlands, see "*Legal Proceedings*" of the Annual Account.

The compliance function and the business work closely together to optimise both products and services to meet the customers' needs. NN Group's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks.

ECONOMIC CAPITAL FOR ENTITIES OUTSIDE NN GROUP'S INTERNAL MODEL

NN has several businesses which are not included in the internal model as the internal model has been developed for insurance operations. NN Group determines the economic capital for these businesses using an approach consistent with the way these businesses are included in the AFR calculations as described in the Capital Management section.

Economic capital for other business NN Bank, IIM units on local required capital levels and other non-modelled

	2013	2012
Pension fund business in Europe	**178**	157
NN Bank	**271**	34
ING Investment Management	**191**	223
Other non-modelled entities	**236**	417
Asia discontinued	**112**	1,504
Total	**988**	2,335

The Pension Fund businesses in Central Europe have been included on the basis of their local required capital using sectoral rules. NN Bank has been included in 2013 using 12% of risk weighted assets. At year-end 2012 NN Bank was not of meaningful size and its economic capital was based on its IFRS equity. The IIM entities and the other non-regulated business units have been included at their amount of IFRS equity adjusted for intangibles. The discontinued insurance operations in Asia have been included in the economic capital using 150% of the Solvency I requirement. The economic capital reduced significantly due to the 2013 closing of the sale of the life insurance businesses in Hong Kong, Macau, India, South Korea and Thailand as well as the closing of the sale of the investment management businesses in South Korea and China. At 31 December 2013, the life insurance Joint Venture in China and the investment management entities in Taiwan and India are the only remaining discontinued Asian businesses. The economic capital of these businesses is added without taking into account diversification benefits.

REGULATORY CAPITAL AND IFRS RESULT BEFORE TAX SENSITIVITIES

The following two sections will provide the sensitivities of regulatory capital and IFRS result before tax, which are also important risks monitored by management and can be different from economic sensitivities. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity Descriptions

	Regulatory Capital	IFRS Result Before Tax
Interest rate risk	Measured by the impact of a 30% upward and downward movement in interest rates (parallel shift based on 30% of the 10 year rate)	Same shock applied as under Regulatory Capital sensitivities
Equity risk	Measured by the impact of a 25% upward and downward movement in equity prices	Same shock applied as under Regulatory Capital sensitivities
FX risk	Measured by the impact of the worse of a 10% upward or downward movement in all currencies compared to the euro	Same shock applied as under Regulatory Capital sensitivities
Credit spread risk	Measured by the impact of a relative increase based on multiplying duration by a rating-based shock calibrated to the 1 in 10 sensitivities of the internal model (e.g. Double A 10-year bond shock is 120 basis points) AAA and AA-rated government bonds and home government bonds in local currency excluded, exception only applicable to Greek bonds Shocks for structured credit are 50% higher than for similarly rated corporate and government bonds	Not calculated as spread risk is minimal for IFRS results
Real estate price risk	This is measured by the impact of a 10% drop in real estate prices only for the minority holdings and direct for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices however as rental income is not assumed under the regulatory capital base case, the –10% shock applied is off-set by +5% rental income resulting in an effective shock of –5%.	This is measured by the impact of a 10% drop in real estate prices only for the minority holdings and direct for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices. As rental income is already included in planned annual earnings, no offset (to the –10% shock) is taken into account for rental income.
Variable Annuity risk	This is measured by a 1 in 10 impact of the aggregate market risk shocks of the internal model on the variable annuity business	Same shock as applied for the regulatory capital sensitivities. Note that both the 2013 and 2012 sensitivity have been based on the assumption that the accounting policy change for the Japan Closed Block VA GMDB business as of 1-1-2014 has already been implemented.
Mortality (Including Longevity)	Not shown. In general, similar to the IFRS sensitivity other than longevity risk in the Netherlands, for which changes to assumptions can impact available capital on a present value basis.	Mortality sensitivity is determined using a 1 in 10 mortality sensitivity of internal model
Morbidity	Not shown. In general, similar to IFRS sensitivities.	Morbidity sensitivity is determined using a 1 in 10 morbidity sensitivity of internal model
P&C	Not shown. In general, similar to IFRS sensitivities.	P&C sensitivity is determined using a 1 in 10 P&C sensitivity of internal model

Risk management continued

SENSITIVITIES OF REGULATORY CAPITAL AT RISK

One of the three quantitative risk appetite statements of NN Group is to ensure that there is sufficient cash capital. The cash capital is determined by the ability of subsidiaries to pay dividends and their potential need for capital injections to continue operations within the local market. Whether or not a capital injection is necessary is assessed based on available regulatory capital and commercial target levels of regulatory required capital. Market stresses primarily impact the available regulatory capital, but in the case of regulated entities within Netherlands Life and ING Life Japan, required regulatory capital also moves with market movements.

Estimated regulatory capital sensitivities

		2013	2012 (1)
	Interest Rate +30% in 10y rate	**–148**	–50
	Interest Rate –30% in 10y rate	**224**	75
	Equity –25%	**–747**	–595
	Equity +25%	**748**	652
Market risk and credit risk	Real estate –10%	**–170**	–192
	FX –10%	**–106**	–90
	Credit spread	**–1,894**	–1,902
	Counterparty default	**–27**	–7
	Variable Annuity (Europe and Japan)	**–260**	–357

(1) In 2012, NN Group did not report regulatory capital sensitivities Therefore, the 2012 regulatory capital sensitivities are high level estimates based on internal risk management reports.

(2) A high level estimate has been used to calculate the impact of interest rate stresses on the risk margin which in used to determine the regulatory available and required capital in Netherlands Life.

The credit spread sensitivity is the largest risk to cash capital and is primarily caused by Netherlands Life given the long term assets in the Netherlands Life portfolio and the spread risk to the liability discounted at the swap rate (see *Market and Credit Spread Risk: General Account Business—Credit spread risk*). Also, Netherlands Non-Life, Spain Life, Greece Life and Japan Life are exposed to credit spread risk on their regulatory balance sheet as assets are valued at market value.

The available regulatory capital balance sheet of Netherlands Life (which includes a significant amount of long-term liabilities) is modestly exposed to lower interest rates mostly due to the UFR impact on the liability discount curve. The other regulated entities are, however, exposed to higher interest rates as assets are at market value, but liabilities are not. This results in an overall position which is relatively insensitive to interest rates.

The equity sensitivity is primarily related to the general account equity holdings and increased during the year as the total value of equity securities increased.

FX primarily reflects open positions in investments held by Japan Life and Netherlands Life. This does not include any translation risk.

The variable annuity risk is dominated by Japan Closed Block VA and decreased significantly over 2013 due to depreciation of the JPY versus EUR.

Apart from the estimated sensitivities set out above, NN Group is exposed to volatility and basis risk with regards to the separate account guaranteed group pension business in Netherlands Life. Netherlands Life is also exposed to changes in assumptions with regards to longevity, expenses and policyholder behaviour as the present value impact on the policyholder liabilities of such assumption changes will be immediately reflected in the available regulatory capital.

SENSITIVITIES OF IFRS RESULT BEFORE TAX

The table below sets out various market and insurance risk shocks for IFRS result before tax sensitivities.

Estimated IFRS result before tax sensitivities

		2013	2012
	Interest Rate +30% in 10y rate	**–3**	–56
	Interest Rate –30% in 10y rate	**7**	99
	Equity –25%	**–362**	–437
	Equity +25%	**273**	367
Market risk and credit risk	Real estate –10%	**–485**	–508
	FX –10%	**–58**	–53
	Counterparty default	**–96**	–85
	Variable annuity (Europe and Japan)	**–260**	–357
	Mortality (including longevity)	**–26**	–29
Insurance risk	Morbidity	**–100**	–100
	P&C	**–92**	–82

The reported market risk sensitivities for 2013 reflect the refinement of the accounting for the separate account pension business in the Netherlands. This change significantly reduced the sensitivity of NN Group’s result before tax to interest rates as both the interest rate hedges and the technical provisions for this book move the same way with interest rates.

As at 31 December 2013, the result before tax sensitivities to equity risk primarily relate to the general account equity holdings in the Netherlands and Belgium, the hedging of the separate account pension business in the Netherlands and fee income from NN Group’s investment management business, for which earnings sensitivities have been included as of year-end 2013. IFRS real estate sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS result before tax. The sensitivities decreased in 2013 due to lower real estate exposures.

The variable annuity risk for 2012 and 2013 primarily relates to Japan Closed Block VA and decreased due to FX movements. Both the 2012 and 2013 figures are adjusted to reflect the implementation of the move towards fair value accounting on the reserves for the guaranteed minimum death benefits of the Japan Closed Block VA, as of 1 January 2014.

In 2013, result before tax sensitivities to P&C risk increased primarily due to increased retention levels for windstorm catastrophe risk.

OTHER RISK INFORMATION

Greece, Italy, Ireland, Portugal, Spain and Cyprus (GIIPSC)

Since 2010 concerns arose regarding the creditworthiness of certain European countries. As a result of these concerns the fair value of sovereign debt decreased and those exposures are being monitored more closely. With regard to the sovereign debt crisis, ING’s main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility (“EFSF”) or receive support from the ECB via government bond purchases in the secondary market. Further details on exposure to Government bonds and Unsecured Financial institutions’ bonds are included in Note 3 “Available-for-sale Investments”.

The table below provides information on ING’s risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent risk exposure values and exposures are included based on the country of residence of the direct Obligor to which ING has primary recourse of repayment of the obligations, except most RMBS, which exposures are based on country of risk. Cyprus is not included in the table below as NN Group had no exposure linked to this country.

Risk management continued

Greece, Italy, Ireland, Portugal and Spain – Total risk exposures [1]

2013	**Greece**	**Italy**	**Ireland**	**Portugal**	**Spain**	**Total**
Residential mortgages and other consumer lending	**9**				**18**	**27**
Corporate Lending		**75**	**25**			**100**
Financial Institutions Lending	**11**				**170**	**181**
Government Lending						
Total Lending	**20**	**75**	**25**	**0**	**188**	**308**
RMBS	**27**	**236**		**182**	**263**	**708**
CMBS						
Other ABS		**12**			**2**	**14**
Corporate Bonds		**287**	**254**	**15**	**164**	**720**
Covered Bonds		**9**	**5**		**355**	**369**
Financial Institutions' bonds (unsecured)		**58**		**26**	**76**	**160**
Government Bonds	**39**	**1,303**	**53**	**5**	**1,013**	**2,413**
Total Debt Securities	**66**	**1,905**	**312**	**228**	**1,873**	**4,384**
Real Estate	**22**	**346**		**206**	**262**	**836**
Total exposure	**108**	**2,326**	**337**	**434**	**2,323**	**5,528**

[1] The exposures reported in these tables are outstanding amounts, different valuation method from previous tables in the Risk Section where exposures are reported as Market Value.

Greece, Italy, Ireland, Portugal and Spain – Total risk exposures [1]

2012	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	12				19	31
Corporate Lending		50	25			75
Financial Institutions Lending	7				254	261
Government Lending						
Total Lending	19	50	25	0	273	367
RMBS	30	330	100	208	351	1,019
CMBS						
Other ABS		24			8	32
Corporate Bonds		316	258	27	156	757
Covered Bonds		18	15		507	540
Financial Institutions' bonds (unsecured)		52	36	38	109	235
Government Bonds	36	1,345	53	5	967	2,406
Total Debt Securities	66	2,085	462	278	2,098	4,989
Real Estate	21	275		217	342	855
Total exposure	106	2,410	487	495	2,713	6,211

[1] The exposures reported in these tables are outstanding amounts, different valuation method from previous tables in the Risk Section where exposures are reported as Market Value.

Total exposure to the GIIPS countries was reduced by EUR 683 million in 2013. NN Group reduced its exposure in debt securities by EUR 605 million and Financial Institutions lending by EUR 80 million. In debt securities, ABS exposure decreased by EUR 329 million, mainly in Italy by EUR 106 million and Ireland by EUR 100 million, and covered bonds went down by EUR 171 million, mainly in Spain by EUR 152 million. The decrease in Financial Institutions lending was mainly in Spain by EUR 84 million.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVE

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities, which involves the management, planning and allocation of capital within ING Group, as well as the treasury function, which is key to manage and execute the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, NN Group and ING Bank. In 2013, NN Group set up separate Corporate Finance department to manage the capital planning and treasury activities for the Insurance operations in the context of its preparations to separate from ING Group. Capital Management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity and fixed coverage ratio) and internal metrics such as Available Financial Resources (AFR) and Economic Capital (EC).

ING applies the following main capital definitions:

- Insurance Group Directive capital (NN Group) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 "method based on accounting consolidation" of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See "Capital Base" disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base. As of 30 September 2013, the IGD ratio for NN Group was adjusted for the transfer of ING U.S. Inc. from NN Group N.V. to ING Groep N.V. and a change in the calculation methodology. Prior period has not been restated to reflect these adjustments, as the impact is not material.
- AFR (NN Group excluding US Insurance business) –This is a pre-tax market value concept, defined for the insurance operations in scope of the IPO as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities valuation includes an adjustment for liquidity premium. For other businesses a proxy is used for AFR, i.e. statutory net equity for third party pension funds and NN Bank, and IFRS Equity adjusted for Goodwill for Asian divestments and Investment Management companies. The qualifying perpetual hybrid capital is considered equity and included in AFR. AFR is used as the measure of available capital in comparison with EC employed.
- EC (NN Group excluding US Insurance business) – This is the pre-tax required capital for the insurance operations in scope of the IPO, based on a 99.5% confidence interval on a one-year horizon. This is considered an interim step to the Solvency II capital framework. The EC for other businesses is based on a proxy, i.e. sectoral rules for third party pension funds and NN Bank, 150% EU required capital for Asian divestments, and IFRS Equity adjusted for Goodwill for Investment Management companies.
- Regulatory Capital framework – Insurance and Investment Management legal entities have to comply with local statutory capital frameworks that are under supervision of local regulators. Most of these frameworks for insurance businesses in Europe are based on Solvency I principles and are expected to migrate to Solvency II starting in 2016.
- Financial Leverage (NN Group) – Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt.

DEVELOPMENTS 2013

In 2013 Capital Management's main focus remained the strengthening of the capital position of ING Group, ING Bank and NN Group. ING's capital is well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities. ING Group repaid another EUR 0.75 billion of Core Tier one securities and at yearend 2013 EUR 1.5 billion was outstanding of the original amount of EUR 10 billion.

In May 2013, the US Insurance business was successfully separated and listed (VOYA) on the NYSE. NN Group has divested this business in several tranches. In May NN Group sold approximately 28% shares in Voya and successfully completed the secondary offering of Voya with proceeds of EUR 644 million. On 30 September 2013, NN Group transferred its remaining shares of the US Insurance business to ING Group. In October, ING Group sold another tranche of approximately 15% shares in Voya with proceeds of EUR 788 million. At the end of 2013, ING Group still owns 56.7% of the US Insurance business.

The proceeds from the Initial Public Offering of the US Insurance business and from the partial divestment of Sul América S.A. in Brazil to GrupoSura and to the Larragoiti family were fully paid up to ING Group and used to reduces core debt at ING Group.

Capital management continued

NN Group reduced its financial leverage substantially, from 31% by the end of 2012 to 26% at the end of 2013. This was mainly driven by the proceeds from the sale of its Asian Insurance businesses o.w. Hong Kong, Korea, Thailand and India, a capital injection from ING Group, the transfer of the US business from NN Group to ING Group and dividends from operating companies, offset by capital injections into operating companies, including a cash capital requirement for IPO purposes and holding company interest costs and expenses. In September NN Group N.V. redeemed senior debt of EUR 0.7 billion and an intercompany loan from ING Group of EUR 1.3 billion. The redemptions were funded by a new short-term intercompany loan of EUR 2 billion from ING Group, which was reduced to EUR 1 billion in December following a capital injection from ING Group.

Nationale-Nederlanden Bank N.V. (part of NN Group) acquired parts of Westland-Utrecht Bank (owned by ING Bank) per 1 July 2013. This acquisition was funded by a capital injection from ING Group and therefore not increasing financial leverage of NN Group.

In order to comply with the obligations toward the European Commission, ING Group largely finalised the divestment of its Asian business, US business and Brazilian business; the total proceeds from divestments in 2013 were EUR 4.1 billion.

Additionally, ING Group is in process of preparing NN Group for a separate listing in 2014. As part of those preparations to become a stand-alone company, ING Group injected EUR 1 billion of capital to further strengthen the capitalisation of NN Group.

REGULATORY

On 1 January 2014, an interim solvency regulation (commonly referred to as Solvency 1.5) has come into force in the Netherlands, in addition to the existing Solvency I framework. This new regulation fits within DNB's approach to make the supervision of insurance companies more risk sensitive and forward looking. Solvency 1.5 places additional requirements on management of capital. The legislation also introduces the Theoretical Solvability Criterion (*theoretisch solvabiliteitscriterium*; TSC), which applies to large and medium-sized life insurance companies in the Netherlands. The aim of the TSC is to ensure that, after the realisation of some pre-defined stress scenarios, insurance companies still comply with their solvency requirements. In case the solvency position of an insurer is below the TSC, the DNB could require the insurance company to submit a recovery plan. Additionally, if the solvency position is below the TSC, DNB could require a declaration of no objection for dividend payments and other withdrawals from own funds.

The Dutch life insurance companies of NN Group have been using the ECB AAA curve to perform the regulatory test of adequacy of their insurance liabilities at year end 2012. On 12 July 2013, Fitch downgraded France to AA+, resulting in French government bonds no longer being included in the ECB AAA curve. The downgrade caused a drop of the ECB AAA curve of on average 15 basis points (dependent on the point on the curve), leading to an increase in the valuation of the liabilities and therefore a decrease in available regulatory capital if a shortage resulted from the test of adequacy. The DNB swap curve is the only alternative curve to the swap curve allowed by DNB that is available to Dutch life insurance companies to discount liabilities in the regulatory test of adequacy. As of Q3 2013, the Dutch life insurance companies of NN Group have been granted permission by DNB to use the DNB swap curve for the test of adequacy. The impact of the downgrade of France had an immediate unfavourable impact on NN Life's regulatory solvency ratio of about 39%-points.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

PROCESSES FOR MANAGING CAPITAL

Capital Management manages its capital on a pro-active basis and ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and NN Group and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet its financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is performed on a regular basis. These stress tests focus on topical issues and the sensitivity of NN Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

Capital management continued

A key priority of Capital Management is to ensure that strong stand-alone companies are created for banking and insurance in preparation of the separation. Both operations need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2013, NN Group was adequately capitalised.

Capital position of NN Group

	2013	2012 (4)
Shareholder's equity (parent)	**14,227**	26,423
Hybrids issued by NN Group to ING Group (1)	**2,394**	2,438
Hybrids issued by NN Group (2)		476
Required regulatory adjustments	**–5,368**	–6,891
IGD capital	**11,253**	22,446
EU required capital base	**4,379**	9,523
IGD Solvency I ratio (3)	**257%**	236%

(1) Hybrids issued by ING Group at notional value.

(2) Hybrids issued by NN Group at notional value capped at 25% of EU required capital. As from 1 January 2013 the hybrid issued by NN Group N.V. with notional amount of EUR 476 million does not qualify anymore for IGD Capital based on regulations from DNB.

(3) The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.

(4) The IGD Solvency I ratio reported in the 2012 Annual Report of 245% is restated due to the change in accounting policy for employee benefits as disclosed in the section "Changes in accounting policies in 2013" on page F9.

During 2013, the IGD ratio of NN Group increased from 236% at the end of 2012 to 257% at the end of 2013. This improvement reflects a decrease of Shareholders' equity and a release of required capital following the various divestments that closed during 2013, the IPO of ING U.S. and the transfer of the remaining interest in ING U.S. to ING Group. In addition, the improvement was supported by favourable market developments, net operating results and the EUR 1 billion capital injection from ING Group to redeem debt. This was only partially offset by the impact of the downgrade of France by Fitch on the NN Life solvency ratio, the exclusion of a EUR 0.5 billion hybrid loan that no longer qualifies as capital and the write down of the DAC for the Japan Closed Block VA business.

NN Group continues to aim that all operating entities are adequately capitalised based on local regulatory and rating agency requirements and that on a consolidated basis, the financial leverage (hybrids, sub-debt and financial debt) of NN Group is appropriate relative to the capital base.

Capital base and financial leverage of NN Group

	2013	2012 (4)
Shareholder's equity (parent)	**14,227**	26,423
Revaluation reserve debt securities	**–2,804**	–9,282
Revaluation reserve crediting to life policyholders	**2,579**	5,673
Revaluation reserve cash flow hedge	**–2,726**	–3,548
Goodwill	**–264**	–351
Minority interests	**68**	217
Capital base for financial leverage (a)	**11,080**	19,132
Hybrids issued by NN Group to ING Group (1)	**2,401**	2,451
Hybrids issued by NN Group (2)	**491**	496
Total hybrids (b)	**2,892**	2,947
External debt issued by NN Group N.V.		694
External debt issued by US Holding companies		2,307
Senior Debt issued by NN Group to ING Group	**1,000**	1,311
Other net financial debt (3)		1,457
Total financial debt (c)	**1,000**	5,769
Total financial leverage (d) = (b) + (c)	**3,892**	8,716
Financial leverage ratio (e) = (d) / {(a) + (d)}	**26%**	31%

Capital management continued

[1] Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
[2] Hybrids issued by NN Group at amortised cost value consistent with IFRS carrying value.
[3] Includes net internal borrowings from the operating subsidiaries, offset by net current assets of the holding companies in excess of a cash capital requirement.
[4] The Capital base for financial leverage as reported in the 2012 Annual Report of EUR 20,007 million is restated due to the change in accounting policy for employee benefits as disclosed in the section "Changes in accounting policies in 2013" on page F9.

For NN Group in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

Reconciliation between IGD capital and Capital base for financial leverage

	2013	2012
IGD capital	**11,253**	22,446
Hybrids issued by NN Group to ING Group	**–2,394**	–2,438
Hybrids issued by NN Group		–476
Revaluation reserve debt securities	**–2,804**	–9,282
Revaluation reserve crediting to life policyholders	**2,579**	5,673
Revaluation reserve adjustments	**2,446**	3,209
Capital base for financial leverage	**11,080**	19,132

The table below provides the capital ratios for the larger Insurance subsidiaries according to local regulatory capital frameworks:

Local Capital ratios for the larger Insurance operations

	2013 [1]	2012 [2]
NN Life	**222%**	191%
ING Re Netherlands	**1,253%**	320%
ING Life Japan	**1,366%**	989%

[1] The 2013 capital ratios are not final until filed with the regulators.
[2] Comparable capital ratio for ING Life Japan is at 31 March 2013, as the financial year for ING Life Japan runs from 1 April until 31 March.

NN Life's capitalisation improved due to a EUR 0.6 billion capital injection, higher performance of the equity portfolio, lower credit spreads, but offset by the change in valuation curve from ECB AAA curve to DNB Swap curve. Following the subordinated loan to NN Life and the impact of the pension agreement in the first quarter of 2014, the estimated pro-forma solvency I ratio for NN Life is 234%.

The capital ratio of ING Re increased mainly due to a capital injection of EUR 0.6 billion to strengthen its capitalisation from an economic basis, favourable market developments and a decrease in required capital. Required capital decreased mainly due to lower value of the guarantees for the reinsured Japan VA business and the termination of the Stop-Loss contract with Poland.

ING Life Japan's capital ratio improved due to profits in the period from 1 April until 31 December 2013 and lower required capital, reflecting decreasing SPVA minimum guarantee reserve, which is led by favourable market developments and increased SPVA lapses.

For NN Group, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The SII regulations are not final and material deviations from our proxy could materialise; see the risk management section for more details. AFR in the 2012 Annual Report of ING Verzekeringen N.V. was derived for ING Insurance EurAsia excluding Asian Insurance and Investment Management businesses and the reinsured Japan VA guarantees to ING Re (Netherlands) N.V. that were classified as held-for-sale operations. ING announced in 2013 that NN Group N.V. will be divested instead of ING Insurance Eurasia N.V., and after carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group's insurance and investment management businesses in the base case IPO of NN Group in 2014, subject to market and other conditions. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re ("NN Group's business in Japan") are no longer classified as held-for-sale operations. All references to Asia in this disclosure therefore, refer to the insurance and investment management businesses in Asia other than NN Group's business in Japan.

The following table presents the reconciliation from the 2012 AFR for Insurance EurAsia excluding Asian held-for-sale operations as reported in the Annual Report 2012, to the comparable basis for NN Group excluding US Insurance business. The impact of the change in scope on EC is explained in detail in the Risk paragraph.

Capital management continued

Change of scope of AFR 2012

amounts in billions of euros	AFR (1)
As reported for ING Insurance EurAsia (excluding held-for-sale operations) in 2012	9.6
Change in model and methodology (1)	–0.8
Include NN Group's businesses in Japan as modelled business	2.4
Include the other Asian held-for-sale operations as unmodelled business	4.0
Include legacy units and holding	–3.8
NN Group 2012 excluding US Insurance business on a basis comparable to 2013	11.4

(1) The change in model and methodology refers to the change in accounting policy for employee benefits as disclosed in the section "Changes in accounting policies in 2013" on page F9.

The table below provides AFR and EC on comparable basis for NN Group (excluding US operations).

AFR and EC

	2013	2012
AFR	**13.6**	11.4
EC	**7.0**	8.7
Excess AFR over EC	**6.6**	2.7
AFR-EC ratio	**193%**	131%

The AFR-EC ratio for NN Group excluding US Insurance business increased in 2013 as a result of higher AFR and lower EC. AFR increased from EUR 11.4 billion at the end 2012 to EUR 13.6 billion at the end of 2013. AFR increased mainly due to a capital injection from ING of EUR 1.3 billion (EUR 1.0 billion to redeem ING Group loan and EUR 0.3 billion to acquire parts of WestlandUtrecht Bank) and the inclusion of the "Ultimate Forward Rate" (UFR) in the valuation curve of EUR 1.6 billion. This increase was partially offset by the change of treatment of the pension asset (included in 2012 figures but excluded in 2013) of EUR 0.7 billion and the change in treatment of the external hybrid of EUR 0.5 billion, which is not considered AFR as from 1 January 2013 (consistent with IGD ratio). The change in EC during 2013 is explained in detail in the Risk paragraph.

Main credit rating of ING at 31 December 2013

	Standard & Poor's		Moody's		Fitch	
	Rating	outlook	Rating	outlook	Rating	outlook
ING Group N.V.	**A-**	**stable**	**A3**	**negative**	**A**	**negative**
– long term						
NN Group N.V.						
– short term	**A-2**		**P-2**		**F2**	
– long term	**BBB+**	**stable**	**Baa2**	**negative**	**A-**	**negative**

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 17 March 2014

THE SUPERVISORY BOARD
J. (Jeroen) van der Veer, chairman
P.A.F.W. (Peter) Elverding, vice-chairman
J.P. (Tineke) Bahlmann
H.W. (Henk) Breukink
C.W. (Carin) Gorter
J.H. (Jan) Holsboer
J.Ch.L. (Joost) Kuiper
H-J.M. (Hermann-Josef) Lamberti
I. (Isabel) Martín Castellá
R.W.P. (Robert) Reibestein
Y.C.M.T. (Yvonne) van Rooy
L.A.C.P. (Luc) Vandewalle

THE MANAGEMENT BOARD NN GROUP
R.A.J.G. (Ralph) Hamers, *CEO and chairman*
E. (Lard) Friese, vice-chairman
D. (Delfin) Rueda, *CFO*
S.D. (Doug) Caldwell, *CRO*
D.E. (Dorothee) van Vredenburch, *member*
P.G. (Patrick) Flynn, *member*
W.F. (Wilfred) Nagel, *member*

Parent company balance sheet of NN Group N.V.

as at 31 December before appropriation of result

amounts in millions of euros	2013	2012
Assets		
Investments in group companies 1	**18,558**	31,198
Other assets 2	**1,893**	4,480
Total assets	**20,451**	35,678
Equity 3		
Share capital		
Share premium	**11,605**	17,750
Share of associates reserve	**3,502**	7,252
Other reserves	**–890**	383
Unappropriated result	**10**	1,038
Shareholder's equity	**14,227**	26,423
Liabilities		
Subordinated loans 4	**2,892**	2,947
Other liabilities 5	**3,332**	6,308
Total liabilities	**6,224**	9,255
Total equity and liabilities	**20,451**	35,678

References relate to the notes starting on page F164. These form an integral part of the parent company annual accounts.

Parent company profit and loss account of NN Group N.V.

for the year ended 31 December

amounts in millions of euros	**2013**	2012
Result of group companies	**47**	1,092
Other results after tax	**–37**	–54
Net result	**10**	1,038

Parent company statement of changes in equity of NN Group N.V.

amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Other reserves [1]	Total
Balance as at 31 December 2011		17,750	5,190		472	23,412
Remeasurement of the net defined benefit asset/liability			–910			–910
Unrealised revaluations property in own use			–13			–13
Unrealised revaluations available-for-sale investments and other			5,073			5,073
Realised gains/losses transferred to profit and loss account			–367			–367
Changes in cash flow hedge reserve			665			665
Transfer to insurance liabilities/DAC			–2,181			–2,181
Other revaluations					75	75
Exchange rate difference			–369			–369
Total amount recognised directly in equity (Other comprehensive income)	0	0	1,898	0	75	1,973
Net result from continuing and discontinued operations					1,038	1,038
Total comprehensive income	0	0	1,898	0	1,113	3,011
Transfer to share of associates reserve			164		–164	
Balance as at 31 December 2012 (restated)	**0**	**17,750**	**7,252**	**0**	**1,421**	**26,423**
Remeasurement of the net defined benefit asset/liability			**–42**			**–42**
Unrealised revaluations property in own use			**–1**			**–1**
Unrealised revaluations available-for-sale investments and other			**–4,627**		**–45**	**–4,672**
Realised gains/losses transferred to profit and loss			**90**			**90**
Changes in cash flow hedge reserve			**–832**			**–832**
Transfer to insurance liabilities/DAC			**2,154**			**2,154**
Exchange rate difference			**–647**			**–647**
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**–3,905**	**0**	**–45**	**–3,950**
Net result from continuing and discontinued operations					**10**	**10**
Total comprehensive income	**0**	**0**	**–3,905**	**0**	**–35**	**–3,940**
Transfer from to associates			**118**		**–118**	
Capital contribution		**1,330**				**1,330**
Employee stock option and share plans			**37**			**37**
Changes in composition of the group and other changes		**–6,826**			**43**	**–6,783**
Impact of IPO ING U.S.					**–1,958**	**–1,958**
Dividend		**–649**			**–233**	**–882**
Balance as at 31 December 2013	**0**	**11,605**	**3,502**	**0**	**–880**	**14,227**

[1] Other reserves includes Retained earnings, Other reserves and Unappropriated result.

Accounting policies for the parent company annual accounts of NN Group N.V.

ESTABLISHMENT OF NN GROUP

Until recently, ING Verzekeringen N.V. (“ING Insurance”) was the holding company of the insurance and investment management activities of ING. As such, ING Insurance prepared consolidated financial statements under IFRS-EU that included ING Insurance and all its subsidiaries. ING Insurance was a wholly-owned subsidiary of ING Insurance Topholding N.V. (“ING Topholding”), a wholly-owned subsidiary of the ultimate parent ING Groep N.V. ING Topholding was a holding company with no other assets, liabilities and activities than its 100% holding in ING Insurance.

On 28 February 2014, before the finalisation of the 2013 consolidated financial statements, ING Insurance and ING Topholding legally merged. Through this merger, the legal entity ING Insurance ceased to exist. The legal merger became effective on 1 March 2014 and on that date the merged entity was renamed NN Group N.V. (“NN Group”).

The merged entity NN Group N.V. is in substance a continuation of ING Insurance. As of 2013, NN Group prepares consolidated financial statements under IFRS-EU in which all assets and liabilities of ING Insurance and its subsidiaries are included at their existing carrying values. The parent company financial statements are those of NN Group N.V. As ING Topholding was a holding company with no other assets, liabilities and activities than its 100% holding in ING Insurance , the financial position and results of NN Group are not significantly different from what these would have been for ING Insurance.

BASIS OF PRESENTATION

The parent company accounts of NN Group N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the Consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of investments in group companies and investments in associates which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserves of associates are reflected in the Share of associates reserve, which forms part of Shareholder’s equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with NN Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in the Share of associates reserve.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve, which forms part of Shareholder’s equity.

The amounts for 2012 have been restated to reflect the change in accounting policy as disclosed in the section “Change in accounting policies” in the Note 1 “Accounting policies” of the consolidated annual accounts.

Notes to the parent company annual accounts of NN Group N.V.

amounts in millions of euros, unless stated otherwise

ASSETS

1 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Proportion of ownership interest and voting rights held by the direct parent company	Balance sheet value	Proportion of ownership interest and voting rights held by the direct parent company	Balance sheet value
	2013	**2013**	2012	2012
ING Insurance Eurasia N.V.	**100%**	**16,371**	100%	18,759
ING U.S., Inc.			100%	10,165
ING Insurance International B.V.	**100%**	**2,171**	100%	2,258
Other	**100%**	**16**	100%	16
		18,558		31,198

Changes in investments in group companies

	2013	2012
Opening balance	**31,198**	27,794
Repayments-capital contribution	**–2,507**	–134
Disposals of group companies	**–7,451**	–2
Revaluations	**–5,877**	2,024
Result of group companies	**47**	1,092
Capital contribution	**3,150**	424
Dividend	**–2**	
Closing balance	**18,558**	31,198

In 2013, Disposal of group companies includes the transfer of ING U.S.

2 OTHER ASSETS

Other assets

	2013	2012
Receivables from group companies	**1,375**	3,917
Other receivables, prepayments and accruals	**518**	563
	1,893	4,480

As at 31 December 2013, an amount of EUR 488 million (2012: EUR 4,433 million) is expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of NN Group N.V. continued

EQUITY
3 EQUITY

Equity

	2013	2012
Share capital		
Share premium	11,605	17,750
Share of associates reserve	3,502	7,252
Other reserves and unappropriated result	–880	1,421
	14,227	26,423

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 458 million (2012: EUR 340 million) and Revaluation reserve of associates of EUR 3,044 million (2012: EUR 8,397 million).

Share capital

	Ordinary shares (par value EUR 1.00)			
	Number x 1,000		Amount	
	2013	2012	2013	2012
Authorised share capital	225	225		
Unissued share capital	180	180		
Issued share capital	45	45	0	0

NN Group has an issued share capital of EUR 45,000. For details on the changes in 2013, in share premium, reference is made to Note 13: “Equity” of the Consolidated annual accounts.

Changes in other reserves and unappropriated result

2013	Retained earnings	Unappro–priated result	Total
Opening balance	382	1,038	1,420
Net result		10	10
Unrealised revaluations	–45		–45
Transfer to Share of associates’ reserve	–118		–118
Transfer to retained earnings	805	–805	0
Changes in the composition of the group and other changes	44		44
Impact of IPO ING U.S.	–1,958		–1,958
Dividend		–233	–233
Closing balance	–890	10	–880

Changes in other reserves and unappropriated result

2012	Retained earnings	Unappro–priated result	Total
Opening balance	512	–41	471
Net result		1,038	1,038
Unrealised revaluations	75		75
Transfer to Share of associates’ reserve	–164		–164
Transfer to retained earnings	–41	41	0
Closing balance	382	1,038	1,420

Positive components of the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis.

Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components in the Currency translation reserve and Share of associates reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings.

Notes to the parent company annual accounts of NN Group N.V. continued

The total amount of Equity in the parent company annual accounts equals Shareholder’s equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts; and
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts.

The total amount of non-distributable reserves is EUR 3,502 million (2012: is EUR 7,252 million).

See Note 13 “Equity” in to the consolidated annual accounts for additional information.

Notes to the parent company annual accounts of NN Group N.V. continued

LIABILITIES
4 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount	Balance sheet value	
					2013	2012
8.000%	2011	Perpetual	EUR	450	**450**	450
Variable	2008	Perpetual	EUR	813	**813**	834
Variable	2007	Perpetual	EUR	740	**740**	758
4.176%	2005	Perpetual	EUR	169	**176**	181
Variable	2005	Perpetual	EUR	148	**148**	152
Variable	2005	Perpetual	EUR	74	**74**	76
6.375%	2002	7 May 2027	EUR	476	**491**	496
					2,892	2,947

The subordinated loans rank subordinated to the other liabilities in a winding-up of NN Group.

5 OTHER LIABILITIES

Other liabilities by type

	2013	2012
Debenture loans		694
Amounts owed to group companies	**3,250**	5,554
Other amounts owed and accrued liabilities	**82**	60
	3,332	6,308

Debenture loans

Interest rate	Year of Issue	Due date	Balance sheet value	
			2013	2012
Floating	2006	Sep 2013		270
4.000%	2006	Sep 2013		424
			0	694

Amounts owed to group companies by remaining term

	2013	2012
Within 1 year	**2,873**	5,250
More than 5 years	**377**	304
	3,250	5,554

6 OTHER
Guarantees

As at 31 December 2013, NN Group N.V. had guarantees on behalf of ING Bank companies to third parties of nil (2012: EUR 221 million) outstanding.

NN Group N.V. has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for group companies.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD

See Note 52 “Related parties” to the consolidated Annual Accounts for additional information.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 17 March 2014

THE SUPERVISORY BOARD

J. (Jeroen) van der Veer, chairman
P.A.F.W. (Peter) Elverding, vice-chairman
J.P. (Tineke) Bahlmann
H.W. (Henk) Breukink
C.W. (Carin) Gorter
J.H. (Jan) Holsboer
J.Ch.L. (Joost) Kuiper
H-J.M. (Hermann-Josef) Lamberti
I. (Isabel) Martín Castellá
R.W.P. (Robert) Reibestein
Y.C.M.T. (Yvonne) van Rooy
L.A.C.P. (Luc) Vandewalle

THE MANAGEMENT BOARD NN GROUP

R.A.J.G. (Ralph) Hamers, *CEO and chairman*
E. (Lard) Friese, vice-chairman
D. (Delfin) Rueda, *CFO*
S.D. (Doug) Caldwell, *CRO*
D.E. (Dorothee) van Vredenburch, *member*
P.G. (Patrick) Flynn, *member*
W.F. (Wilfred) Nagel, *member*

Independent auditor's report

To: the Shareholder, the Supervisory Board and the Management Board NN Group N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2013 of NN Group N.V., Amsterdam (as set out on pages F2 to F168). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2013, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2013, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

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

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of NN Group N.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of NN Group N.V. as at 31 December 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination of whether the report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 17 March 2014

Ernst & Young Accountants LLP

signed by A.F.J. van Overmeire

Proposed appropriation of result and Subsequent events

amounts in millions of euros

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Group N.V., the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board.

For 2013, it is proposed to appropriate the entire result to reserves, so that no final dividend will be paid.

NN Group has transferred its interest in its subsidiary ING U.S., Inc. (“ING U.S.”) to ING Groep N.V. by way of dividend in kind of EUR 6,826 million. Reference is made to Note 53 “Other events” for more details on the transaction.

In 2013, NN Group declared and paid a cash dividend of EUR 882 million (2012: nil) to ING Groep N.V. Reference is made to Note 13 “Equity” of the Consolidated annual accounts.

Proposed appropriation of result

Net result	**10**
Proposed to be added to the Other Reserves pursuant to Articles 21(2) and 21(3) of the Articles of Association	**10**

SUBSEQUENT EVENTS

Defined Benefits Pension Fund in The Netherlands

In February 2014 ING reached an agreement with the trade unions, the ING Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations of ING’s current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement has made the ING Pension Fund financially independent from ING.

The key elements of the agreement are:

- Responsibility for future indexation and funding thereof will be transferred to the Dutch ING Pension Fund;
- ING’s obligation to restore the coverage ratio of the Dutch ING Pension Fund ceased;
- The cross guarantees between ING Bank and NN Group to jointly and severally fund the obligations of the Dutch ING Pension Fund are terminated;
- ING paid EUR 549 million (before tax) to the Dutch ING Pension Fund for the removal of these obligations; and
- ING will reduce the employees’ own contribution to the pension premium under the new defined contribution plan by approximately EUR 80 million over a 6 year period.

As part of the agreement, ING Bank and NN Group are released from all financial obligations arising from the Dutch defined benefit plan. Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from the balance sheet. The removal of the net pension asset related to the Dutch defined benefit pension plan from the balance sheet of approximately EUR 0.6 billion after tax and the payment to the Dutch ING Pension Fund of EUR 0.5 billion (EUR 0.4 billion after tax) will result in a charge of approximately EUR 1.1 billion after tax to be recognised in 2014. Of this impact, EUR 0.4 billion will be attributed to NN Group.

Accounting for GMDB in Japan Closed Block VA

NN Group applies fair value accounting on the reserves for Guaranteed Minimum Death Benefits (GMDB) of the Japan Closed Block VA from 1 January 2014. This improves the alignment of the carrying value of the GMDB reserves with their market value, better reflects the economic value of these guarantees and improves the alignment of the accounting for the guarantees with the accounting for the related hedges. Furthermore, this move makes the accounting for the GMDB consistent with the accounting on the reserves for Guaranteed Minimum Accumulation and Withdrawal benefits. As at 1 January 2014, the difference between the current carrying value and the estimated fair value of the GMDB reserves was EUR 219 million (before tax). Implementation of fair value accounting for GMDB represents a change in accounting policy under IFRS-EU with a transitional impact of EUR 165 million after tax being reflected only in Shareholder’s equity as of 1 January 2014. Results for comparative periods will be restated accordingly.

Proposed appropriation of result and subsequent events continued

DISCLAIMER

Certain of the statements contained in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of NN Group's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit ratings, (18) NN Group's ability to achieve projected operational synergies and (19) the other risk factors and uncertainties detailed in the risk factors section contained in the most recent annual report of ING Groep N.V.

Any forward-looking statements made by or on behalf of NN Group speak only as of the date they are made, and, NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

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