2015 Annual Review

2015 Financial Report

2015 Sustainability Supplement

2015 Financial Report

Accelerating change

NN

About this report

NN Group adopts a combined reporting strategy, which enables us to tailor our reporting for different stakeholder groups

The 2015 Annual Report provides an integrated review of the performance of our company. It is in accordance with applicable Dutch law and the International Financial Reporting Standards (IFRS), which were endorsed by the European Union, as well as with the Global Reporting Initiative's G4 guidelines (GRI). It aligns relevant information about our strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate.

Three documents comprise our 2015 Annual Report

2015 Annual Review

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2015 Sustainability Supplement

2015 Annual Review
This is our top level communication aimed at all NN Group stakeholders. It is a concise, integrated review that provides information about our dynamic operating environment and key material trends, our strategy, how we create value, the financial and non-financial performance of our business and the statement of our CEO.

2015 Financial Report
This report covers NN Group's financial developments and annual accounts, the report of our Supervisory Board and our approach to risk management, capital management and corporate governance. Target audiences are shareholders, rating agencies and other stakeholders interested in the financials and governance of NN Group.

2015 Sustainability Supplement
This supplement provides additional information with regard to our strategy, objectives and achievements related to the social, ethical and environmental aspects of our businesses. It is especially aimed at shareholders, rating agencies and NGOs.

www.nn-group.com/annual-report

Annual Report contents

Annual Review

Financial Report

Sustainability Supplement

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www.nn-group.com/sustainability-supplement

Financial developments

NN Group

Analysis of result

	2015	2014
– Netherlands Life	906	615
– Netherlands Non-life	122	128
– Insurance Europe	197	176
– Japan Life	160	140
– Asset Management	129	158
– Other	-79	-130
Operating result ongoing business	**1,435**	**1,086**
Non-operating items ongoing business	393	198
– of which gains/losses and impairments	356	-28
– of which revaluations	122	143
– of which market & other impacts	-85	83
Japan Closed Block VA	20	109
Special items before tax	-100	-687
Result on divestments	14	57
Result before tax from continuing operations	**1,761**	**762**
Taxation	166	135
Net result from continuing operations	**1,595**	**627**
Net result from discontinued operations		-16
Net result from continuing and discontinued operations before attribution to minority interest	**1,595**	**612**
Minority interest	30	23
Net result	**1,565**	**588**

Key figures

New sales life insurance (APE)	1,295	1,315
Value of new business (VNB)	202	178
Total administrative expenses ongoing business	1,758	1,758
Net operating ROE[1]	10.8%	8.6%
IGD Solvency I ratio[2]	320%	300%
Solvency II ratio[2]	239%	n/a

1 Net operating ROE is calculated as the (annualised) net operating result of the ongoing business, adjusted for the accrued coupon on undated subordinated notes classified in equity, divided by the average allocated equity of the ongoing business adjusted for revaluation reserves and excluding undated subordinated notes classified in equity.
2 The solvency ratios are not final until filed with the regulators. SII ratio is based on the partial internal model.
Note: 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 net result of NN Group improved to EUR 1,565 million in 2015 compared with EUR 588 million in 2014, mainly reflecting an increased operating result of the ongoing business, higher non-operating items and improved special items, partly offset by a lower result of Japan Closed Block VA.

The operating result of the ongoing business increased to EUR 1,435 million in 2015 from EUR 1,086 million in 2014. The result for 2015 reflects EUR 221 million large private equity dividends and EUR 75 million lower administrative expenses in the Netherlands. Furthermore, the 2015 result was supported by a total of EUR 52 million of benefits in the technical margin following updates to certain technical provisions in Netherlands Life, while 2014 was negatively impacted by a EUR 43 million addition to the unit-linked guarantee provision driven by a decrease in interest rates. Higher results at Insurance Europe and Japan Life and lower funding costs also contributed to the increased operating result, partly offset by a lower result at Asset Management, the reinsurance business and an unfavourable claims experience in Property & Casualty (P&C) at Netherlands Non-life.

The operating result of Netherlands Life increased to EUR 906 million in 2015 from EUR 615 million in 2014, primarily driven by a higher investment margin which benefited from EUR 195 million of large private equity dividends and a higher technical margin. The technical margin increased supported by a total of EUR 52 million of benefits following updates to certain technical provisions, while 2014 was negatively impacted by a EUR 43 million addition to the unit-linked guarantee provision due to a decrease in interest rates.

The operating result of Netherlands Non-life decreased to EUR 122 million in 2015 from EUR 128 million in 2014, as EUR 26 million of private equity dividends and improved results in the Motor portfolio were offset by less favourable results in the Miscellaneous portfolio and an unfavourable claims experience in Fire due to large and weather-related claims in 2015. The combined ratio was 101.5% in 2015 compared with 99.4% in 2014.

The operating result of Insurance Europe was EUR 197 million in 2015 up from EUR 176 million in 2014. The increase was driven by higher premium-based revenues related to traditional life insurance contracts and higher fees on assets under management, as well as lower DAC amortisation and trail commissions. This was partly offset by the lower investment margin and the negative impact of the pension reforms in Poland.

The operating result of Japan Life increased to EUR 160 million in 2015 from EUR 140 million in 2014. Excluding currency effects, the operating result increased by 9.4% reflecting an increase in fees and premium-based revenues on higher in-force volumes. This was partly offset by higher administrative expenses as 2014 benefited from a EUR 6 million one-off release of a pension liability, as well as a lower investment margin due to lower interest rates on reinvested assets.

The operating result of Asset Management was EUR 129 million in 2015, down from EUR 158 million in 2014. Higher average Assets under Management (AuM) led to higher fee income, which was more than offset by an increase in administrative expenses, mainly reflecting EUR 17 million of restructuring expenses, while 2014 benefited from releases of personnel provisions of EUR 10 million.

The operating result of the segment Other improved to EUR -79 million in 2015, from EUR -130 million in 2014. The improvement reflects lower funding costs, higher interest income and lower holding expenses as well as a higher operating result at NN Bank, partly offset by a lower operating result of the reinsurance business and lower other results.

Financial developments – continued

The result before tax from continuing operations increased significantly to EUR 1,761 million in 2015 from EUR 762 million in 2014, which included a special item of EUR -541 million related to the impact of the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent. The improved result before tax reflects the increased operating result and higher capital gains on debt and equity securities, as well as higher revaluations on real estate. These items were partly offset by a lower result of Japan Closed Block VA and negative market and other impacts reflecting the movement in the provision for guarantees on separate account pension contracts (net of hedging) in Netherlands Life as well as lower revaluations on private equity.

The result from non-operating items related to the ongoing business improved to EUR 393 million in 2015 from EUR 198 million in 2014.

Gains/losses and impairments were EUR 356 million in 2015 compared with a loss of EUR 28 million in 2014. The improved result reflects EUR 546 million of capital gains on public and private equity and debt securities, partly offset by EUR 168 million of impairments on equity securities.

Revaluations amounted to EUR 122 million in 2015 down from EUR 143 million in 2014 reflecting lower revaluations on private equity partly offset by higher real estate revaluations.

Market & other impacts decreased to a loss of EUR 85 million in 2015, from a gain of EUR 83 million in 2014, mainly driven by the movement in the provision for guarantees on separate account pension contracts (net of hedging) at Netherlands Life. In addition, 2014 included a EUR 44 million positive impact in Insurance Europe related to the guarantee fund in Poland.

The result before tax of Japan Closed Block VA decreased to EUR 20 million in 2015 from EUR 109 million in 2014. The result for 2015 includes an operating result of EUR 64 million, a hedge-related result of EUR -55 million and a EUR 12 million reserve decrease on higher lapse assumptions for out-of-the-money policies.

Special items before tax improved to a loss of EUR 100 million compared with a loss of EUR 687 million in 2014, which included a EUR 541 million negative impact of the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent. Special items in 2015 consist of EUR 87 million expenses related to the rebranding of NN Group's subsidiaries and EUR 13 million restructuring expenses related to the target to reduce the administrative expense base of Netherlands Life, Netherlands Non-life and corporate/holding entities to EUR 700 million by the end of 2018. To achieve this target, NN Group expects to incur restructuring expenses of EUR 30–35 million per annum over the years 2016, 2017 and 2018, which will be reported as special items.

The result on divestments was EUR 14 million in 2015, down from EUR 57 million in 2014, which included the disposal of the Brazilian insurance holding SulAmérica. The result in 2015 largely reflects the liquidation of the Regional Office Hong Kong and the sale of the private equity management company, Parcom Capital Management.

The net result from continuing operations increased to EUR 1,595 million in 2015 from EUR 627 million in 2014. This reflects the increase in the result before tax from continuing operations and the recognition of deferred tax assets for previously incurred unused tax losses, as well as tax-exempt dividends and capital gains in the Netherlands mainly related to shareholdings of 5% or more. The effective tax rate for 2015 was 9.4% predominantly for the same reasons.

The net result from discontinued operations was nil in 2015 versus EUR -16 million in 2014.

New sales (APE) amounted to EUR 1,295 million in 2015, down 3.1% compared with 2014, on a constant currency basis, reflecting lower sales in Insurance Europe (-5.6%) and Japan Life (-3.3%), partly compensated by higher sales in Netherlands Life (+2.6%). The lower new sales at the international units reflect actions to preserve margins in a low interest rate environment.

The value of new business (VNB) for 2015 amounted to EUR 202 million, up 13.1% from EUR 178 million in 2014. The new business metrics for 2015 have been calculated in line with NN Group's pricing methodology. The 2014 new business metrics have been restated for comparability. The increase primarily reflects higher VNB at Insurance Europe and Japan Life driven by a shift to higher margin products, partially offset by lower VNB at Netherlands Life due to an overall decline in interest rates. The internal rate of return (IRR) on new sales slightly decreased to 10.7% from 11.0% in 2014.

Total administrative expenses of the ongoing business in 2015 remained stable at EUR 1,758 million compared with 2014. The administrative expenses in Netherlands Life, Netherlands Non-life and corporate/holding entities decreased in 2015 by EUR 75 million compared with 2014. The original cost reduction programme, which aimed to reduce the 2013 expense base by EUR 200 million, was completed one year ahead of schedule at the end of the third quarter of 2015. The new target, as announced in November 2015, is to reduce the administrative expense base of Netherlands Life, Netherlands Non-life and corporate/holding entities to EUR 700 million by the end of 2018. At the end of 2015, the administrative expense base amounted to EUR 803 million. The cost reduction in the Netherlands was mainly offset by higher administrative expenses at Asset Management and NN Bank.

For 2015, the net operating ROE for the ongoing business of NN Group increased to 10.8% from 8.6% in 2014, largely reflecting the improved profitability of the business.

The NN Group IGD Solvency I ratio increased to 320% in 2015 from 300% at the end of 2014 largely driven by the net result of EUR 1,565 million offset by capital flows to shareholders of EUR 940 million, including the proposed 2015 final dividend of EUR 341 million. The final 2014 dividend was already reflected in the NN Group IGD Solvency I ratio at year-end 2014.

The NN Group Solvency II ratio based on the Partial Internal Model was 239% at the end of 2015 and reflects the deduction of the proposed final 2015 dividend of EUR 341 million.

Financial developments – continued

Netherlands Life

Analysis of result

	2015	2014
Investment margin	825	630
Fees and premium-based revenues	354	404
Technical margin	207	102
Operating income	**1,385**	**1,136**
Administrative expenses	431	457
DAC amortisation and trail commissions	48	64
Expenses	**479**	**521**
Operating result	**906**	**615**
Non-operating items	325	115
– of which gains/losses and impairments	280	-62
– of which revaluations	130	139
– of which market & other impacts	-85	38
Special items before tax	-11	-352
Result on divestments	2	
Result before tax	**1,222**	**377**
Taxation	112	41
Minority interests	27	9
Net result	**1,083**	**327**

Key figures

New sales life insurance (APE)	253	247
Value of new business (VNB)	6	14
Total administrative expenses	431	457
Net operating ROE[1]	11.5%	7.7%
NN Life Solvency I ratio[2]	294%	257%
NN Life Solvency II ratio[2]	216%	n/a

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by the average allocated equity of the segment adjusted for revaluation reserves.
2 The solvency ratios are not final until filed with the regulators. SII ratio is based on the partial internal model. The NN Life solvency ratios reflect the merger of Nationale-Nederlanden Levensverzekeringen Maatschappij N.V. and Nationale-Nederlanden Services N.V. The comparative figures from 2014 have been restated accordingly. The NN Life solvency ratios at the end of 2015 reflect a dividend of EUR 150 million paid to NN Group in March 2016.

The operating result of Netherlands Life increased to EUR 906 million in 2015 from EUR 615 million in 2014, primarily driven by a higher investment margin and a higher technical margin.

The investment margin increased to EUR 825 million in 2015 from EUR 630 million in 2014 driven by EUR 195 million of large private equity dividends.

Fees and premium-based revenues in 2015 decreased to EUR 354 million from EUR 404 million in 2014, reflecting the individual life closed book run-off and lower margins in the pension business.

The technical margin increased to EUR 207 million in 2015 from EUR 102 million in 2014 supported by a total of EUR 52 million of benefits following updates to certain technical provisions, while 2014 was negatively impacted by a EUR 43 million addition to the unit-linked guarantee provision due to a decrease in interest rates.

Administrative expenses decreased to EUR 431 million in 2015 compared with EUR 457 million in 2014, supported by lower staff costs.

DAC amortisation and trail commissions were down 25% to EUR 48 million in 2015 compared with 2014, reflecting the run-off of the individual life closed book and regulatory changes.

The 2015 result before tax increased to EUR 1,222 million compared with EUR 377 million in 2014, reflecting higher operating results and non-operating results and a lower adverse impact from special items.

The non-operating items improved to EUR 325 million compared with EUR 115 million in 2014.

Gains/losses and impairments increased to EUR 280 million from a loss of EUR 62 million in 2014 mainly driven by capital gains on public and private equity and debt securities partly offset by impairments on public equity.

Revaluations were EUR 130 million in 2015 compared with EUR 139 million in 2014, as positive revaluations on real estate were more than offset by negative revaluations on private equity reflecting revaluations of those investments that paid out dividends which were recognised in the operating result.

Market and other impacts were EUR -85 million compared with EUR 38 million in 2014, mainly reflecting movements in the provision for guarantees on separate account pension contracts (net of hedging).

Special items before tax were EUR -11 million compared with EUR -352 million in 2014 which was driven by a EUR -322 million impact related to the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent.

New sales (APE) were relatively flat at EUR 253 million compared with EUR 247 million in 2014. A EUR 420 million single premium relating to the pension fund buy-out of a large company pension fund was offset by lower group pension renewals and lower sales of individual contracts.

The value of new business (VNB) in 2015 decreased to EUR 6 million from EUR 14 million in 2014, largely due to the renewal of a few large group pension contracts on more favourable terms in 2014 and due to an overall decline in interest rates. For the same reasons, the internal rate of return (IRR) decreased to 8.5% in 2015 from 11.2% in 2014.

The Solvency I ratio of NN Life improved to 294% at 31 December 2015 from 257% at 31 December 2014, primarily reflecting positive revaluations on equity and real estate investments, tightening of credit spreads and operating performance offset by dividends of EUR 565 million, including a dividend of EUR 150 million paid to NN Group in March 2016. The EUR 350 million dividend paid by NN Life in February 2015 was already reflected in its Solvency I ratio at year-end 2014.

The NN Life Solvency II ratio based on the Partial Internal Model was 216% at the end of 2015. The NN Life Solvency II ratio at the end of 2015 reflects a dividend of EUR 150 million paid to NN Group in March 2016.

Financial developments – continued

Netherlands Non-life

Analysis of result

	2015	2014
Earned premiums, net of reinsurance	1,503	1,525
Investment income, net of investment expenses	139	114
Other income	4	
Operating income	**1,646**	**1,640**
Claims incurred, net of reinsurance	1,065	1,049
Acquisition costs	239	245
Administrative expenses	223	222
Acquisition costs and administrative expenses	**461**	**467**
Expenditure	**1,526**	**1,516**
Operating result insurance businesses	**119**	**123**
Operating result broker businesses	2	4
Total operating result	**122**	**128**
Non-operating items	22	10
– of which gains/losses and impairments	19	-3
– of which revaluations	3	14
Special items before tax	-6	-97
Result before tax	**138**	**41**
Taxation	16	4
Net result	**122**	**38**

Key figures

Gross premium income	1,534	1,566
Total administrative expenses[1]	292	294
Combined ratio[2]	101.5%	99.4%
– of which Claims ratio[2]	70.8%	68.8%
– of which Expense ratio[2]	30.7%	30.6%
Net operating ROE[3]	24.4%	23.3%

1 Including Mandema and Zicht broker businesses.
2 Excluding Mandema and Zicht broker businesses.
3 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by the average allocated equity of the segment adjusted for revaluation reserves.

The operating result of Netherlands Non-life was EUR 122 million in 2015 compared with EUR 128 million in 2014, as EUR 26 million of private equity dividends and improved results in the Motor portfolio were offset by less favourable results in the Miscellaneous portfolio and an unfavourable claims experience in the Fire portfolio. The combined ratio was 101.5% in 2015 compared with 99.4% in 2014.

The operating result in Disability & Accident (D&A) improved, driven by higher investment income from private equity dividends. The operating result in Property & Casualty (P&C) decreased due to less favourable results in the Miscellaneous portfolio, which mainly comprises liability and legal aid cover, and an unfavourable claim experience in Fire due to large and weather-related claims in 2015. This was partly offset by a higher investment income from private equity dividends and an improved result in Motor.

The result before tax increased to EUR 138 million in 2015 from EUR 41 million in 2014, which included a special item of EUR -82 million related to the impact of the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent.

The result from non-operating items increased to EUR 22 million in 2015 from EUR 10 million in 2014, mainly reflecting higher gains on private equity partly offset by lower revaluations.

Insurance Europe

Analysis of result

	2015	2014
Investment margin	80	90
Fees and premium-based revenues	536	518
Technical margin	194	194
Operating income non-modelled business	4	4
Operating income Life Insurance	**814**	**806**
Administrative expenses	306	310
DAC amortisation and trail commissions	315	322
Expenses Life Insurance	**621**	**632**
Operating result Life Insurance	**193**	**174**
Non-life operating result	4	1
Operating result	**197**	**176**
Non-operating items	21	66
– of which gains/losses and impairments	17	21
– of which revaluations	5	1
– of which market & other impacts		44
Special items before tax	-50	-32
Result on divestments		-2
Result before tax	**168**	**207**
Taxation	19	46
Minority interests	3	14
Net result	**146**	**146**

Key figures

New sales life insurance (APE)	494	528
Value of new business (VNB)	96	74
Internal rate of return (IRR)	10.5%	9.6%
Total administrative expenses	322	331
Net operating ROE[1]	10.0%	8.4%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by the average allocated equity of the segment adjusted for revaluation reserves.

The operating result of Insurance Europe increased to EUR 197 million in 2015 from EUR 176 million in 2014, driven by higher fees and premium-based revenues and lower DAC amortisation and trail commissions, partly offset by a lower investment margin.

Financial developments – continued

The investment margin for 2015 was EUR 80 million, compared with EUR 90 million for 2014 which included higher investment income in Greece in connection with an early redemption of Residential Mortgage Backed Securities. Lower reinvestment rates and lower invested volumes also contributed to the decrease.

Fees and premium-based revenues increased to EUR 536 million in 2015 from EUR 518 million in 2014 reflecting higher premium-based revenues related to traditional life insurance contracts as well as higher fees on assets under management. These items were partly offset by the negative impact of the pension reforms in Poland that came into effect in February 2014.

The technical margin was stable at EUR 194 million in 2015. A lower mortality result was offset by higher morbidity results.

Administrative expenses decreased to EUR 306 million in 2015 from EUR 310 million in 2014.

DAC amortisation and trail commissions decreased to EUR 315 million in 2015 from EUR 322 million in 2014, which included a EUR 6 million write-off of capitalised commissions in Poland.

The result before tax decreased to EUR 168 million in 2015 from EUR 207 million in 2014 reflecting higher special items and lower non-operating items, partly offset by the higher operating result.

Gains/losses and impairments decreased to EUR 17 million in 2015 from EUR 21 million in 2014.

Revaluations increased to EUR 5 million in 2015 from EUR 1 million in 2014 mainly due to positive revaluations of real estate in Belgium.

Market and other impacts decreased to nil in 2015 from EUR 44 million in 2014. Market and other impacts in 2014 included a EUR 52 million refund received from the guarantee fund in Poland, partly offset by a EUR 9 million one-off contribution to the new guarantee fund in Poland.

Special items were EUR -50 million in 2015, compared with EUR -32 million in 2014 reflecting rebranding expenses across the region incurred in 2015.

New sales (APE) decreased to EUR 494 million in 2015 from EUR 528 million in 2014 mainly due to actions to preserve margins in a low interest rate environment. Sales of life protection products were up 9.3% year-on-year, excluding currency effects, driven by a large group contract in Spain, and were up 1.3% excluding this contract.

The value of new business (VNB) for 2015 increased to EUR 96 million from EUR 74 million in 2014, reflecting a shift in business mix toward higher margin products partially offset by the impact of lower interest rates. For the same reasons, the internal rate of return (IRR) on new sales increased to 10.5% in 2015 from 9.6% in 2014.

Japan Life

Analysis of result

	2015	2014
Investment margin	-15	-2
Fees and premium-based revenues	503	437
Technical margin	-15	-13
Operating income	**473**	**422**
Administrative expenses	107	97
DAC amortisation and trail commissions	206	185
Expenses	**313**	**282**
Operating result	**160**	**140**
Non-operating items	-9	1
– of which gains/losses and impairments	6	3
– of which revaluations	-14	-2
Special items before tax	-10	-2
Result before tax	**141**	**139**
Taxation	26	48
Net result	**116**	**91**

Key figures

	2015	2014
New sales life insurance (APE)	549	541
Value of new business (VNB)	100	89
Internal rate of return (IRR)	13.3%	13.9%
Total administrative expenses	107	97
Net operating ROE[1]	8.6%	7.9%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by the average allocated equity of the segment adjusted for revaluation reserves.

The operating result of Japan Life increased to EUR 160 million in 2015 from EUR 140 million in 2014. The improved result reflects an increase in fees and premium-based revenues, which was partly offset by higher administrative expenses and a lower investment margin.

The investment margin was EUR -15 million in 2015 compared with EUR -2 million of 2014 due to lower interest rates on reinvested assets.

Fees and premium-based revenues increased to EUR 503 million in 2015 from EUR 437 million in 2014. Excluding currency effects, fees and premium-based revenues increased by 9.7% due to higher in-force volumes.

The technical margin decreased to EUR -15 million in 2015 from EUR -13 million in 2014, mainly due to a lower result on surrenders which was partly offset by higher mortality and morbidity results.

Administrative expenses were EUR 107 million in 2015 compared with EUR 97 million in 2014, which benefited from a EUR 6 million one-off release of a pension liability.

Financial developments – continued

DAC amortisation and trail commissions were EUR 206 million in 2015 compared with EUR 185 million in 2014, due to higher premium income.

The result before tax was EUR 141 million in 2015, down 2.8% from 2014, excluding currency effects, reflecting negative revaluations and higher special items for rebranding the business in 2015 partly offset by the improved operating result.

New sales (APE) were EUR 549 million in 2015, down 3.3% compared with 2014, excluding currency effects.

The value of new business (VNB) for 2015 increased to EUR 100 million, from EUR 89 million in 2014, as a shift to higher margin products more than compensated the impact of lower interest rates. The internal rate of return (IRR) on new sales in 2015 decreased to 13.3% from 13.9% in 2014.

Asset Management

Analysis of result

	2015	2014
Fees	496	486
Operating income	**496**	**486**
Administrative expenses	367	328
Operating result	**129**	**158**
Special items before tax	-23	-124
Result on divestments		-2
Result before tax	**106**	**31**
Taxation	24	5
Net result[1]	**82**	**26**

Key figures

Total administrative expenses	369	328
Net inflow Assets under Management (in EUR billion)	-9	-2
Assets under Management[2,3]	187	195
Net operating ROE[4]	25.3%	32.4%

1 Excluding the Net result from discontinuing operations.
2 End of period, in EUR billion.
3 AuM include the mortgage portfolio managed on behalf of NN Life and NN Non-life. The comparative figures for 2014 have been restated accordingly.
4 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by the average allocated equity of the segment adjusted for revaluation reserves.

Total Assets under Management (AuM) at Asset Management were EUR 187 billion at the end of 2015, down from EUR 195 billion at the end of 2014. The decrease mainly reflects net outflows of Other Affiliated assets and Third-Party assets of EUR 4.8 billion each. The opening balance of AuM has been adjusted by EUR 8.6 billion in Proprietary assets to include the mortgage portfolio managed on behalf of NN Life and NN Non-life. The comparative figures for 2014 have been restated accordingly.

The operating result was EUR 129 million in 2015, down from EUR 158 million for 2014. Higher average AuM led to higher fee income, which was more than offset by an increase in administrative expenses.

Fees were EUR 496 million in 2015, up 2.0% from 2014, as a result of higher average AuM.

Administrative expenses were EUR 367 million in 2015, up from EUR 328 million in 2014, mainly reflecting EUR 17 million of restructuring expenses while 2014 benefited from releases of personnel provisions of EUR 10 million.

The result before tax was EUR 106 million in 2015, compared with EUR 31 million in 2014. The result for 2015 includes special items of EUR -23 million reflecting expenses for rebranding the business from ING Investment Management to NN Investment Partners, while 2014 included a special item of EUR -122 million related to the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent.

Other

Analysis of result

	2015	2014
Interest on hybrids and debt	-104	-122
Investment income & fees	61	50
Holding expenses	-73	-123
Amortisation of intangible assets	-6	-7
Holding result	**-122**	**-201**
Operating result reinsurance business	11	31
Operating result NN Bank	37	27
Other results	-4	13
Operating result	**-79**	**-130**
Non-operating items	34	6
– of which gains/losses and impairments	35	14
– of which revaluations		-8
Special items before tax		-80
Result on divestments	11	62
Result before tax	**-33**	**-142**
Taxation	-20	-18
Net result	**-13**	**-124**

Key figures

Total administrative expenses	240	251
– of which reinsurance business	11	13
– of which NN Bank	149	112
NN Bank common equity Tier 1 ratio phased in[1]	14.0%	14.1%
Total assets NN Bank[2]	12	9
Net operating ROE NN Bank[3]	6.9%	5.6%

1 The 'NN Bank common equity Tier 1 ratio phased in' and the 'NN Bank BIS ratio phased in' are not final until filed with the regulators.
2 End of period, in EUR billion.
3 Net operating ROE is calculated as the (annualised) net operating result of NN Bank, divided by the average allocated equity adjusted for revaluation reserves.

Financial developments – continued

The operating result of the segment Other was EUR -79 million in 2015 compared with EUR -130 million in 2014. The improvement reflects a better holding result and a higher operating result at NN Bank, partly offset by a lower operating result of the reinsurance business and lower other results.

The holding result improved to EUR -122 million in 2015 from EUR -201 million in 2014. The improvement is attributable to lower funding costs, higher interest income and lower holding expenses. Interest costs on hybrids and debt were EUR 104 million in 2015 compared with EUR 122 million in 2014, reflecting the refinancing of hybrid debt using the proceeds of the undated subordinated notes issued in July 2014, which are classified as equity under IFRS. The interest on the undated subordinated notes is recognised through equity while the interest on the hybrid debt redeemed with these notes was recognised in the profit and loss account. Investment income increased to EUR 61 million in 2015 from EUR 50 million in 2014, driven by interest income received on the subordinated loans provided by NN Group to NN Life in the first half of 2014. Holding expenses decreased to EUR 73 million in 2015 compared with EUR 123 million in 2014, reflecting cost reductions as well as a revised method for charging head office expenses to the segments.

The operating result of the reinsurance business decreased to EUR 11 million in 2015 from EUR 31 million in 2014, due to lower underwriting results in 2015 and favourable mortality and lapse assumption updates in the VA Europe portfolio in 2014.

The operating result of NN Bank improved to EUR 37 million in 2015 from EUR 27 million in 2014. The higher production of mortgages and an increase in customer savings led to a higher interest margin, partly offset by higher administrative expenses supporting the bank's continued growth.

The result before tax was EUR -33 million in 2015 compared with EUR -142 million in 2014, reflecting the higher operating result, higher non-operating items and EUR -80 million of special items in 2014 mainly related to the transformation programme in the Netherlands.

Gains/losses and impairments increased to EUR 35 million in 2015 from EUR 14 million in 2014, mainly reflecting the sale of government bonds in 2015, while 2014 included negative revaluations on real estate.

Japan Closed Block VA

Analysis of result

	2015	2014
Investment margin	-1	
Fees and premium-based revenues	95	117
Operating income	**94**	**117**
Administrative expenses	19	21
DAC amortisation and trail commissions	10	12
Expenses	**29**	**33**
Operating result	64	84
Non-operating items	-44	24
– of which market & other impacts	-44	24
Result before tax	**20**	**109**
Taxation	-11	8
Net result	**31**	**101**

Key figures[1]

Account value	10,028	13,248
Net Amount at Risk	203	133
IFRS Reserves	514	556
Number of policies	202,192	294,263

1 End of period.

The result before tax of Japan Closed Block VA decreased to EUR 20 million in 2015 from EUR 109 million in 2014. The result for 2015 includes an operating result of EUR 64 million, a hedge-related result of EUR -55 million and a EUR 12 million reserve decrease on higher lapse assumptions for out-of-the-money policies.

The operating result before tax was EUR 64 million in 2015 compared with EUR 84 million in 2014, down 26.8% excluding currency effects, due to lower fees and premium-based revenues in line with the run-off of the portfolio.

Fees and premium-based revenues were EUR 95 million in 2015 compared with EUR 117 million in 2014 due to a lower account value caused by a decreasing number of policies.

Administrative expenses decreased to EUR 19 million in 2015 from EUR 21 million in 2014, which included higher project costs to prepare for the expected large volumes of maturities.

DAC amortisation and trail commissions decreased to EUR 10 million in 2015 from EUR 12 million in 2014.

The Net Amount at Risk in the Japan Closed Block VA increased to EUR 203 million in 2015 from EUR 133 million in 2014, primarily as a result of equity markets depreciation.

The portfolio run-off resulted in a 31.3% decrease in the number of policies compared with year-end 2014.

Report of the Supervisory Board

The Supervisory Board of NN Group N.V. consists of the following members:

Supervisory Board

Jan Holsboer (1946)
Dutch
Chair

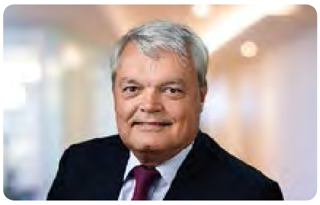
Jan Holsboer was appointed to the Supervisory Board of NN Group N.V. on 1 March 2014 and was appointed chair on 7 July 2014. He is a member of the Nomination and Corporate Governance Committee, Remuneration Committee and Audit Committee.

As the chair of the NN Group Supervisory Board, I am pleased to present this 2015 Annual Report.

As the Supervisory Board we take into account the best interests of all NN Group's stakeholders when overseeing and advising the Executive Board and monitoring the overall functioning of NN Group. Each member's role on the Supervisory Board, and within the committees on which they serve, contribute to NN Group's successful operations with respect to laws and regulations, the company values care, clear, commit, and the implementation of the strategy to deliver an excellent customer experience.

2015 has been a successful and eventful year for NN Group, and in turn the Supervisory Board. As ING Group continued to divest its shares, we saw many changes to the composition of the Supervisory Board. Now, with ING Group's stake below 15%, the Supervisory Board no longer has members nominated by ING Group. This is a significant step to NN Group realising its future as a standalone company.

I know I speak for my fellow Supervisory Board members, listed below, when I say I am proud of what we have helped NN Group achieve in 2015. I invite you to read our collective input, actions and involvement outlined in the report to follow.



Dick Harryvan (1953)
Dutch
Vice-chair

Dick Harryvan was appointed to the Supervisory Board of NN Group N.V. on 2 February 2016 and was appointed vice-chair on 24 February 2016. He is a member of the Audit Committee, Remuneration Committee and Nomination and Corporate Governance Committee.

Heijo Hauser (1955)
German
Member

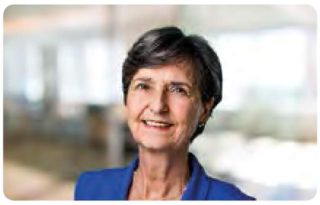
Heijo Hauser was appointed to the Supervisory Board of NN Group N.V. on 7 July 2014. He chairs the Risk Committee and is a member of the Audit Committee.

Robert Jenkins (1951)
American
Member

Robert Jenkins was appointed to the Supervisory Board of NN Group N.V. on 2 February 2016. He is a member of the Risk Committee and Remuneration Committee.

Hans Schoen (1954)
Dutch
Member

Hans Schoen was appointed to the Supervisory Board of NN Group N.V. on 7 July 2014. He chairs the Audit Committee and is a member of the Risk Committee.



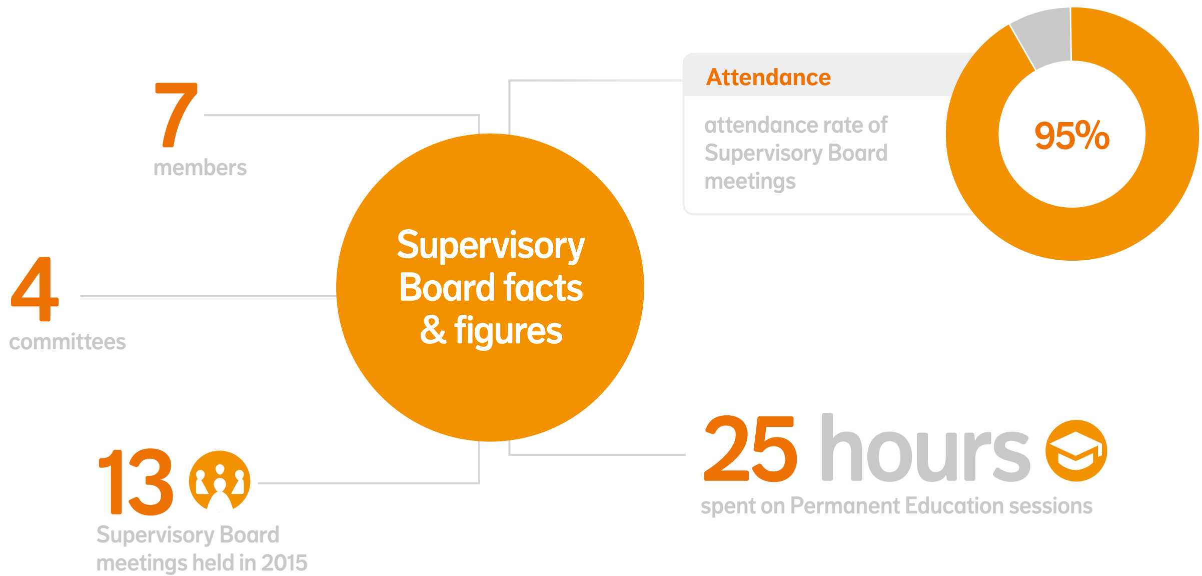
Yvonne van Rooij (1951)
Dutch
Member

Yvonne van Rooij was appointed to the Supervisory Board of NN Group N.V. on 1 March 2014. She chairs the Remuneration Committee and she is a member of the Nomination and Corporate Governance Committee.

Hélène Vletter-van Dort (1964) Dutch
Member

Hélène Vletter-van Dort was appointed to the Supervisory Board of NN Group N.V. on 6 October 2015. She chairs the Nomination and Corporate Governance Committee and she is a member of the Risk Committee.

Report of the Supervisory Board – continued



Introduction

This Report of the Supervisory Board should be read in conjunction with the section on Corporate governance (pages 18–28 and the Remuneration Report (pages 29-33), which are deemed to be incorporated by reference in this report.

The Supervisory Board of NN Group N.V. (Supervisory Board) is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board advises the members of the Executive Board on how to perform their duties, in accordance with the best interests of NN Group, its businesses, and all relevant stakeholders. In 2015, the Supervisory Board focused on several key issues:

- NN Group's performance and strategy, including the development of NN Group's medium to long-term strategy following its successful IPO
- Performance in the low interest rate environment
- Preparing for Solvency II

Composition

The composition of the Supervisory Board is such that members act critically and independently from each other, the Executive Board and any one particular interest. The knowledge, expertise and background of each member are considered in the context of the Supervisory Board as a whole. The Supervisory Board aims to have a strong representation of diversity in terms of experience, age, career stage and nationality, with a focus on enhancing gender diversity. The selection of Supervisory Board members aims to fulfil this diversity and create a robust body able to effectively oversee the activities of NN Group and its businesses.

As per 7 July 2014, the Supervisory Board was comprised of the following seven members:

- Mr Holsboer, Mr Hauser, Mr Schoen and Ms van Rooij
- Mr Hamers, Mr Flynn and Mr Nagel, ING Group nominees in accordance with an agreement made between NN Group and ING Group regarding their ongoing relationship after the IPO (the Relationship Agreement)

The composition of the Supervisory Board in relation to the ING Group nominees is set out in the Relationship Agreement which – with the exception of certain specific provisions – terminated on 2 February 2016 when ING Group's shareholding in NN Group fell below fifteen per cent (15%). The Relationship Agreement specified that, when ING Group's interest in NN Group[1] fell below thirty-five per cent (35%), ING Group's right to nominate Supervisory Board members for appointment, and to propose replacements for such members, was limited to two members. Upon termination of the Relationship Agreement ING Group no longer had the right to nominate Supervisory Board members for appointment, nor to propose replacement for such members.

In anticipation of the continued decrease of ING Group's interest, and the accompanying resignation of Mr Hamers, Mr Flynn and Mr Nagel, the Supervisory Board proposed to appoint three future Supervisory Board members on 6 October 2015. On that date NN Group held an Extraordinary General Meeting (EGM).

1 Interest in NN Group relates to the direct or indirect interest of ING Group in ordinary shares in the capital of NN Group in relation to the number of issued ordinary shares, excluding the shares held by NN Group in its own capital in treasury.

Report of the Supervisory Board – continued

Introduction – continued

Changes to the Supervisory Board reflected the decrease of ING Group's interest in NN Group throughout the year:

- On 30 September 2015, ING Group reduced its stake in NN Group to 25.8%
- On 6 October 2015, NN Group held an EGM, during which Mr Hamers resigned from the Supervisory Board, and Ms Vletter-van Dort, who was nominated by the Works Council, was appointed, effective from that date
- On that same day, Mr Harryvan and Mr Jenkins were also appointed to the Supervisory Board, with their appointment becoming effective as soon as ING Group's stake in NN Group fell below fifteen per cent (15%). This occurred on 2 February 2016. Up until that moment, both participated in Supervisory Board-related activities as observers.

With the appointment of Ms Vletter van-Dort, Mr Harryvan and Mr Jenkins, the Supervisory Board has maintained the balance of nationality, gender, age and experience. With the resignation of Mr Hamers on 6 October 2015, and Mr Flynn and Mr Nagel on 14 December 2015, all members of the NN Group Supervisory Board are independent as defined by the Dutch Corporate Governance Code. An overview of the current members can be found on page 10 of this Financial Report.

Lifelong learning

It is essential that NN Group's Supervisory Board is knowledgeable about how NN Group and its businesses are run. To this end, the Supervisory Board developed the Supervisory Board Onboarding Programme (Onboarding Programme), and the Permanent Education Programme for Supervisory Board members (Permanent Education Programme). Together, these programmes cover topics necessary to continue the lifelong learning of Supervisory Board Members, at the time of and throughout their appointments.

Following their appointments, Ms Vletter-van Dort, Mr Harryvan and Mr Jenkins participated in the Onboarding Programme, in which they became familiar with NN Group, its history, its strategic roadmap, and its (historical) financial and operational performance, including risks and challenges. Additionally, each of them was informed of their specific responsibilities as well as the key legal and compliance obligations that apply to Supervisory Board members. The Onboarding Programme continues with deep dive sessions into NN Group's business units, so that each new appointee may better understand the operations, governance and approach of NN Group's businesses.

The members of the Supervisory Board followed the 2015 Permanent Education Programme plan, which was developed on the basis of input received from the 2014 annual Supervisory Board self-assessment, and individual requests from the Supervisory Board members, Executive Board and staff. On average, the Supervisory Board spent approximately 25 hours attending permanent education sessions arranged by NN Group. These permanent education sessions included – amongst others – topics on Solvency II, IFRS 9, IT developments in digital and big data, developments in the Dutch pension market, NN Group's approach for ensuring suitable products and sales, internal audit practices, corporate governance developments, integrity and sustainability.

Self-assessment

Annually, the Supervisory Board assesses its functioning in order to evaluate its performance and identify opportunities for individual and collective growth. In March 2016, this evaluation was carried out for the financial year 2015. The Supervisory Board looked at the functioning of the Supervisory Board as a whole, the functioning of the Supervisory Board committees and their chairs and of the individual Supervisory Board members. Following this evaluation, the chair of the Supervisory Board met with each Supervisory Board member individually to provide direct feedback. This feedback was based on the input received from the self-assessment and individuals within NN Group and following a review of outside positions and permanent education sessions.

Conflicts of interest

Due to their roles as executive board members of ING Group, Mr Hamers, Mr Flynn and Mr Nagel were conflicted with respect to the following transactions:

- NN Group's repurchase of ordinary shares from ING Group as announced on 17 February 2015, 26 May 2015 and 30 September 2015
- NN Group's decision to issue a final ordinary dividend for the year 2014 as announced on 11 February 2015 and to issue an interim dividend as announced on 31 August 2015
- NN Group's announcement of the stock fraction for the 2014 final dividend, issuance of new ordinary shares as stock divided and the repurchase of the equivalent amount of ordinary shares from ING Group to neutralise the dilutive effect of the stock dividend on earnings per share
- NN Group's decision to issue to ING Group ordinary shares in its capital for an amount of EUR 57 million to fulfil a commitment to the EC pertaining to the capitalisation of NN Bank, as announced on 21 May 2015

Best practice provision III.6.1, III.6.2, and III.6.3 of the Dutch Corporate Governance Code were complied with and Mr Hamers, Mr Flynn and Mr Nagel thus did not participate in the discussions or decision-making on these transactions. Apart from the transactions mentioned above there were no other apparent conflicts of interest of material significance in 2015.

Report of the Supervisory Board – continued

Key discussion topics and activities

Supervisory Board

The Supervisory Board held 13 Supervisory Board meetings in 2015, one of which was held in the Czech Republic as part of the Supervisory Board's visit to some of NN Group's European business units. The average attendance rate for scheduled meetings was 95%. None of the Supervisory Board members was frequently absent at these meetings and in all meetings there was sufficient presence to constitute a valid quorum.

In addition to the formal meetings, the chair of the Supervisory Board maintained regular contact with NN Group's Chief Executive Officer. In these meetings, topical issues as well as the general affairs of NN Group and its businesses were discussed. Also, the Supervisory Board had contact with regulators, and the chair of the Supervisory Board, along with a Works Council-nominated member, met with the Works Council.

During the year, the Supervisory Board was updated on topical issues in its formal meetings. Several presentations were given on NN Group's business activities and key initiatives. In the meetings, the Supervisory Board was briefed on the discussions and resulting recommendations from Supervisory Board committee meetings.

The Supervisory Board discussed and approved several items, such as amendments to policies, the financial results of NN Group (and related press releases and disclosures) and proposed financial transactions, such as NN Group's repurchase of its ordinary shares following ING Group's divestment of those shares, in line with NN Group's governance structure. With regards to governance, the Supervisory Board discussed the current governance structure of NN Group and related documents, such as the application of the Dutch Corporate Governance Code and charters of the Executive Board, Management Board and Supervisory Board.

Additional topics discussed by the Supervisory Board were:

Customer centricity and product development

The Supervisory Board was regularly updated on NN Group's progress in implementing the NN statement of Living our Values (Statement). The Statement addresses customer care elements, such as putting customers at the centre of everything we do, using understandable language and carefully explaining conditions, risks, returns and costs of products and services. Furthermore, the Supervisory Board reviewed, in detail, the status of the implementation of the Statement across NN Group, and the intended steps to embed the Statement in the organisation and NN Group systems.

The Management Board informed the Supervisory Board of the initiatives underway to increase NN Group's visibility of the 'tone at the top'. The Supervisory Board emphasised the importance of ensuring that NN Group develops the right messaging for behaviour and culture in order to ensure a balanced approach to growth initiatives and customer focus. NN Group is showing good progress in this initiative.

The Supervisory Board was also made aware of the initiatives underway to further embed culture and integrity into the DNA of the organisation by, amongst others, the refreshing of NN Group's Code of conduct with the objective to further align with the Statement, streamlining the product approval and review process and implementation of the customer suitability principles. Significant progress was made during 2015 and initiatives will continue in 2016.

Delivering on NN Group objectives and strategy

Throughout 2015, the Supervisory Board was regularly updated on how NN Group was delivering on its objectives and strategy. The Supervisory Board attended a full day workshop on NN Group's strategy in January 2015. There, the Executive Board outlined NN Group's strategic objectives and medium-term plan (MTP) 2015–2018. The 2015–2018 MTP outlined the Executive Board's roadmap for NN Group following its IPO. Discussion points included the equity story, strengthening the multi-access distribution network, continued development of transparent products and services and achieving greater efficiency throughout NN Group. Furthermore, the Supervisory Board was informed about NN Group's rebranding efforts in support of its strategy.

Risk management and control systems

One of NN Group's most significant milestones in 2015 was obtaining approval from the Dutch Central Bank to use its Partial Internal Model for calculating NN Group's Solvency II ratio. This achievement followed years of hard work by the Executive and Management Boards and their staff. The Supervisory Board also devoted significant attention to this process both in and outside of meetings. The Supervisory Board attended several permanent education sessions regarding Solvency II regulations, particularly with regards to pending clarifications and ongoing discussions of those regulations, technical calculations that NN Group applies and the use of the models in business decisions. Furthermore, the Supervisory Board received dedicated training and a number of Supervisory Board members was interviewed by the Dutch Central Bank as part of NN Group's application for the Partial Internal Model.

The Supervisory Board continually discussed NN Group's risk management and control systems with management, giving specific attention to the requirements of Solvency II and its impact on NN Group's risk model. NN Group frequently provided updates to the Supervisory Board on the implementation of (IT) controls and the status of data quality enhancements. At the close of the third quarter of 2015, NN Group performed a test reporting run on the Solvency II figures and the Supervisory Board was informed about the results, effectiveness of the controls and additional enhancements to be made from lessons learned. They also discussed management's assessment of the adequacy and effectiveness of NN Group's risk management and control systems relating to NN Group's non-financial risks. Of particular focus was building upon the discipline to strengthen the preventative and detective control environments. With respect to non-financial risks NN Group's controls for ensuring proper business continuity management and mitigating IT security risks were a key focus.

The Supervisory Board discussed market volatility, particularly with regards to low and decreasing interest rates. The Supervisory Board was regularly briefed on how NN Group was managing its investment and reinvestment risks and their potential impact on NN Group's Solvency ratio.

Shareholder base

The Supervisory Board was regularly updated on the activities of NN Group's investor relations team with respect to NN Group's shareholder base and discussed NN Group's Capital Markets Day, Solvency II-related disclosures and financial targets. Information relating to the composition of and developments within NN Group's shareholder base is used as input to maintain good relations with investors.

Report of the Supervisory Board – continued

Key discussion topics and activities – continued

Legislative and regulatory developments

The regulatory environment in which NN Group operates continues to evolve, requiring businesses to quickly adapt to these changes. The Supervisory Board was regularly informed about developments in the Netherlands, such as the ruling by the European Court of Justice on unit-linked products, as well as developments outside of the Netherlands. The Supervisory Board ensured proactive adherence to rapidly developing laws and regulations.

Supervisory Board Succession

In 2015, the Supervisory Board ensured proper succession of its members in preparation of ING Group's sell-down of its shareholding in NN Group. To this end, the Supervisory Board evaluated its composition considering the necessary skills, knowledge and experience based on the Supervisory Board Profile and internal competency matrices. The Supervisory Board members agreed on specific profiles for potential successors and were closely involved in the interview process with potential candidates. Additionally, the Supervisory Board considered and supported the recommendation from the Works Council in line with their right to nominate a candidate to the Supervisory Board.

Supervisory Board Committees

There are four committees that support the Supervisory Board: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination and Corporate Governance Committee. The committees are responsible for preparing items delegated to them on which the chair of each committee verbally reports the main points of discussion and resulting recommendations to the Supervisory Board. This enables the Supervisory Board as a whole to make a decision on these items. The key inputs and underlying considerations leading to a recommendation are recorded for each committee.

Audit Committee

The Audit Committee met six times in 2015. The average attendance rate for scheduled meetings was 95%. None of the Audit Committee members was frequently absent at these meetings and in all meetings there was sufficient presence to constitute a valid quorum. The members of the Audit Committee in 2015 were the chair, Mr Schoen, Mr Flynn, Mr Nagel and Mr Hauser. All meetings were also attended by the chair of the Supervisory Board, Mr Holsboer.

Composition of the Audit Committee

- Mr Flynn chaired the Audit Committee until 28 May 2015, after which Mr Schoen, also a financial expert, assumed the position
- Mr Flynn continued to serve as a member of the Audit Committee until the date of his resignation from the Supervisory Board on 14 December 2015
- Mr Nagel left the Audit Committee on 28 May 2015
- Ms Vletter-van Dort temporarily joined the Audit Committee on the date of her appointment to the Supervisory Board on 6 October 2015 until her appointment to the Risk Committee on 24 February 2016
- On 6 October Mr Harryvan joined the Audit Committee as an observer until he became a member of the Audit Committee on 2 February 2016, the date his Supervisory Board membership became effective
- Mr Holsboer was appointed as a member of the Audit Committee on 24 February 2016

The composition of the Audit Committee is such that specific business know-how, financial accounting and related financial management expertise relating to the activities of NN Group are represented.

In accordance with the Charter of the Audit Committee, other attendees of the Audit Committee meetings were the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer of NN Group, the internal and external auditors, the General Manager responsible for financial and management accounting and the General Counsel & Head of Compliance. Regularly, and when deemed necessary, subject matter specialists attended the meetings.

During the year, the chair of the Audit Committee separately met with the Chief Financial Officer of NN Group, the Head of Internal Audit and the external auditors to discuss topical issues.

The internal and external auditors attended each of the Audit Committee meetings in 2015. The Audit Committee encouraged them to share their insights and findings at the general Audit Committee meetings and in the four closed sessions that took place afterwards, where the Audit Committee met with the internal and external auditors without other attendees.

Discussion topics

In general, the Audit Committee discussed periodic financial reports and related press releases as well as supporting documentation, such as actuarial analyses, with a focus on reserve adequacy, reports on internal control on financial reporting and periodic reports from the internal and external auditors.

The Audit Committee also discussed the audit scope, materiality and key audit matters, and reviewed the external auditors' independence, communication and fees every quarter. Regarding some key audit matters, such as Solvency II and reliability and continuity of electronic data processing, the Audit Committee worked closely together with the Risk Committee.

Report of the Supervisory Board – continued

Audit Committee – continued

The main discussion topics of the Audit Committee were:

Estimates used in the calculation of insurance contract liabilities and Reserve Adequacy Test (RAT)

The Audit Committee was frequently informed of adequacy levels of NN Group's reporting segments, including changes to them, and reasons behind such changes. The Audit Committee also addressed the methodologies and controls employed by the business units.

Fair value measurement of investments and related disclosures

On a quarterly basis the Audit Committee discussed the findings with respect to the fair value measurements of investments and related disclosures.

Solvency II

In preparation for Solvency II requirements, the Audit Committee focused on the implementation of the framework requirements, and the development of NN Group's Partial Internal Model for calculating NN Group's Solvency II ratio. Much effort was put into developing and implementing controls on Solvency II metrics. The Audit Committee regularly received reports on the status of the development and implementation of these controls.

The Audit Committee was also regularly informed of the status of the discussions with the Dutch Central Bank on NN Group's Partial Internal Model application. The Audit Committee will continue to address Solvency II in 2016 as final interpretations of Solvency II regulations are expected to be finalised. Embedding of the reporting controls continues.

Reliability and continuity of electronic data processing

On a quarterly basis the Audit Committee was informed of and discussed the status and developments with respect to the reliability and continuity of electronic data processing and monitored the progress of remediation of identified areas for improvement.

Legal proceedings

The Audit Committee was regularly updated about the legal and societal developments with regards to legal proceedings, such as the European Court of Justice ruling on 29 April 2015 regarding unit-linked products in the Netherlands. This input was used to consider if and to what extent these developments may impact on NN Group's disclosures.

External auditor rotation, nomination and AGM appointment

On behalf of the Supervisory Board, the Audit Committee monitored the selection process in preparation to rotate the external auditor for the financial year starting January 2016. The result was the proposal to the General Meeting on 28 May 2015 to appoint KPMG as the next external auditor for NN Group. In this decision, the Audit Committee considered the enhancements put into place by KPMG to strengthen the quality of their audit activities. The strength, background and reputation of the lead audit partners to be assigned to the case were also key factors in the decision to recommend KPMG. At the 2015 AGM, KPMG's appointment was approved for the financial years 2016, 2017, 2018 and 2019.

Risk Committee

The Risk Committee met six times in 2015 with a 100% attendance rate. The members of the Risk Committee in 2015 were Mr Hauser, Mr Nagel, Mr Flynn and Mr Schoen. All meetings were also attended by the chair of the Supervisory Board, Mr Holsboer. Until 3 June 2015, Mr Nagel chaired the Risk Committee, when Mr Hauser was appointed and assumed the role of chair. Mr Nagel continued to serve as a member of the Risk Committee until the date of his resignation on 14 December 2015. Mr Flynn was also a member of the Risk Committee until 28 May 2015.

On 6 October 2015, Mr Jenkins joined the Risk Committee as an observer until he became a member on 2 February 2016, the same date his Supervisory Board membership became effective. Mr Holsboer also became a member of the Risk Committee on 2 February 2016, and Ms Vletter-van Dort joined the Risk Committee effective 24 February 2016. Other attendees at the Risk Committee meetings were the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer of NN Group, the internal and external auditors, the General Counsel & Head of Compliance and the Head of Enterprise Risk Management. During the year, the chair of the Risk Committee regularly liaised with the Chief Risk Officer of NN Group and also held regular meetings with the external auditors and NN Group's Chief Compliance Officer.

In its meetings, the Risk Committee discussed the periodic Enterprise Risk Management Report on key financial risk and non-financial risks. Specific attention was given to risk positions versus risk appetite and risk limits; asset and liability management and investments; and the development of risks in existing and new product portfolios. This includes developments in relation to unit-linked products in the Netherlands and other legal and compliance risks, as well as IT and control risks. The Risk Committee discussed NN Group's progress and plans for strengthening the risk management function. Also, the Risk Committee discussed NN Group's key risks in its Own Risk and Solvency Assessment (ORSA) Report and approved NN Group's 2015 Risk Appetite statement.

Furthermore, the Risk Committee also discussed and approved risk management policies in line with NN Group's governance requirements, such as NN Group's Recovery Plan, responsible investment-related policy, model validation policy, etc.

Report of the Supervisory Board – continued

Risk Committee – continued

Additionally, the Risk Committee addressed the following topics:

Risk organisation and governance

The Risk Committee was informed of the restructuring of NN Group's Risk function, and the tools employed to strengthen risk management in NN Group and its businesses. The Risk Committee was frequently updated on the effects, if any, resulting from the change.

Operational risk and IT environment and security

The increasing importance to ensure a robust risk management system to combat risks arising from technology failures and breaches cannot be sufficiently emphasised. The Risk Committee discussed NN Group's Enterprise Risk Management Report which reflects how, amongst others, NN Group is managing its operational, IT and security risks. Of particular focus was NN Group's approach to managing continuity of business and IT (security) risks.

Financial risks

The Risk Committee discussed Solvency II and its impact on NN Group's capital position, as well as NN Group's interest risk profile in relation to Solvency II. Also on the agenda were the Partial Internal Model application process, risk appetite, hedging, investments and liabilities and NN Group's own risk and solvency self-assessment.

Compliance and integrity

Integrity and values are an important aspect of running any business, particularly ensuring the right 'tone at the top'. The Risk Committee discussed several integrity and compliance initiatives, such as NN Group's compliance and ethics programme, both as standalone topics and also as part of the quarterly Enterprise Risk Management Report.

Remuneration Committee

The Remuneration Committee met seven times in 2015 and had an average attendance rate at scheduled meetings of 83%. The members of the Remuneration Committee in 2015 were the chair, Ms van Rooij, Mr Holsboer and Mr Flynn. Mr Flynn was a member of the Remuneration Committee until his resignation from the Supervisory Board on 14 December 2015. Mr Harryvan and Mr Jenkins became members of the Remuneration Committee on 2 February 2016, the date their appointments to the Supervisory Board became effective.

The Chief Change and Organisation and the Chief Executive Officer of NN Group also joined the meetings of the Remuneration Committee – unless the committee determined otherwise – especially in relation to any proposal concerning the Chief Executive Officer. The Head of Reward & Performance also joined these meetings. In addition to the regularly scheduled meetings, the chair and the members of the Remuneration Committee were in regular contact with the Chief Change and Organisation and NN Group's Head of Reward and Performance.

To ensure their ongoing learning regarding human resource management and remuneration developments, the Remuneration Committee attended a dedicated third-party training on performance management. The Remuneration Committee used the services of Willis Towers Watson to benchmark the remuneration of the Supervisory Board, the Executive Board and the Management Board with comparable companies on the external market.

The topics of discussion included:

Review policies Executive Board and Supervisory Board

The Remuneration Committee devoted time to the remuneration policies of NN Group. Matters that were covered in 2015 included review and endorsement of the updated remuneration policy for the Executive Board and endorsement to update the remuneration of the Supervisory Board regarding the international attendance fee. Both matters were approved at the 2015 AGM.

Performance management and compensation packages Executive Board and Management Board

The Remuneration Committee reviewed the performance assessment on performance year 2014 and reviewed and approved the variable remuneration proposals for the Executive Board and Management Board. The Remuneration Committee discussed and approved the objectives for the Executive and Management Board for performance year 2015.

Other topics discussed

The Remuneration Committee also devoted time to evaluating and discussing the performance management programme for NN Group. The Remuneration Committee approved the NN Group Remuneration Framework, the Identified Staff selection criteria and the list of Identified Staff for NN Group. Furthermore, Identified Staff related remuneration matters were reviewed and approved in line with the NN Group Remuneration Framework, including the variable remuneration proposals for the Identified Staff for performance year 2014, including potential cases for holdback of deferred variable remuneration by way of malus. The Remuneration Committee also reviewed the Remuneration Committee Charter, included in the Supervisory Board Charter.

Report of the Supervisory Board – continued

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee met seven times in 2015 and had an attendance rate of 100%. The members of the Nomination and Corporate Governance Committee in 2015 were the chair, Mr Holsboer, Ms van Rooij and Mr Hamers, until his resignation on 6 October 2015. Ms Vletter-van Dort joined the Nomination and Corporate Governance Committee on 6 October 2015. Mr Nagel, who joined the Nomination and Corporate Governance Committee on 3 November 2015 to replace Mr Hamers, was a member until his resignation from the Supervisory Board on 14 December 2015. Mr Harryvan, who joined the Nomination and Corporate Governance Committee as an observer as of 6 October 2015, became a member when his appointment to the Supervisory Board became effective on 2 February 2016.

The Chief Executive Officer also attended these meetings, except during discussion of matters in relation to the Chief Executive Officer. In relation to the duties described in the charter of the Nomination and Corporate Governance Committee, the chair and some of the members of the Nomination and Corporate Governance Committee met with each member of the Executive and Management Board.

Some of the key activities of the Nomination and Corporate Governance Committee included the evaluation process of the Supervisory Board, the review and endorsement of the implementation of the Dutch Corporate Governance Code, the application of the Dutch Insurers Code for the year 2014, discussing and evaluating the succession plan for the Executive Board, Management Board and other key staff and NN Group's talent management programme. Also, the Nomination and Corporate Governance Committee assessed the functioning of Executive and Management Board members. Individual meetings with these members were part of the assessment.

The Nomination and Corporate Governance Committee evaluated the composition of the Supervisory Board, its committees and individual Supervisory Board competencies and skills. In preparation of ING Group's shareholding (direct or indirect) falling below certain thresholds, as defined in the Relationship Agreement, the Nomination and Corporate Governance Committee discussed the selection criteria and individual profiles for new Supervisory Board members. The Nomination and Corporate Governance Committee also prepared the search criteria and held interviews with proposed candidates.

Annual accounts and dividend

The Executive Board has prepared the 2015 annual accounts and discussed these with the Supervisory Board. The 2015 annual accounts will be submitted for adoption by the General Meeting at the 2016 AGM as part of the Financial Report.

NN Group will propose to pay a final dividend of EUR 1.05 per ordinary share, or EUR 341 million in total, based on the number of outstanding shares at the date of this Financial Report, excluding the shares held by NN Group in its own capital in treasury.

Appreciation

NN Group showed a strong performance in 2015, as it delivered on its IPO targets in light of a challenging market environment and regulatory changes. The Supervisory Board wishes to express its gratitude to the members of the Executive Board and the Management Board, and all employees of NN Group and its businesses, for their dedication to maintaining and building on this momentum, and for their continued commitment to build a company that truly matters in the lives of all stakeholders of NN Group.

The Hague, 22 March 2016
The Supervisory Board

Corporate governance

General

NN Group N.V. (NN Group) is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands, having a two-tier board structure consisting of an executive board (Executive Board) and a supervisory board (Supervisory Board). NN Group also has a management board (Management Board).

NN Group was incorporated on 29 March 2011 under the name ING Insurance Topholding N.V. On 28 February 2014, NN Group entered into a legal merger with its wholly owned subsidiary ING Verzekeringen N.V. ('ING Verzekeringen'), at that time a public limited liability company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. (ING Group), a public limited liability company incorporated under the laws of the Netherlands. On 2 July 2014, ING Group offered part of its shares in the share capital of NN Group to the public and the shares in the capital of NN Group were listed on Euronext Amsterdam (IPO). After settlement of the offering on 7 July 2014 (Settlement Date), ING Group still held a majority of the shares in the share capital of NN Group.

As required under the restructuring plan developed by ING Group as a condition to receiving approval from the European Commission for the Dutch State aid it received in 2008 and 2009 and approved by the European Commission, ING Group has divested more than 50% of its shareholding in NN Group before 31 December 2015. On 31 December 2015 ING Group held 25.8% of the issued and outstanding ordinary shares in the share capital of NN Group. ING Group is obliged to divest its remaining interest before 31 December 2016. Information on the current shareholding of ING Group in NN Group can be found in note 12 to the consolidated annual accounts on page 69. On 10 June 2014, NN Group and ING Group entered into an agreement containing certain arrangements regarding the continuing relationship between NN Group and ING Group (Relationship Agreement). The Relationship Agreement, with the exception of certain specific provisions, terminated on 2 February 2016, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 15% of the issued and outstanding ordinary shares. The full text of the Relationship Agreement is available on the website of NN Group.

In accordance with the Relationship Agreement, as in force until 2 February 2016, NN Group applies the full large company regime (volledig structuurregime) as of 5 October 2015, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 30% of the issued and outstanding ordinary shares. Before that date, NN Group voluntarily applied the mitigated large company regime (gemitigeerd structuurregime).

Executive Board

Duties

The Executive Board is entrusted with the management, the strategy and the operations of NN Group under supervision of the Supervisory Board. In performing its duties, the Executive Board must carefully consider and act in accordance with the interests of NN Group and the business connected with it, taking into consideration the interests of all the stakeholders of NN Group. The organisation, duties and working methods of the Executive Board are detailed in the charter of the Executive Board. This charter is available on the website of NN Group.

Certain resolutions of the Executive Board require the approval of the Supervisory Board and/or general meeting of shareholders (General Meeting). These resolutions are outlined in the articles of association of NN Group (Articles of Association, available on the website of NN Group) and in the charter of the Executive Board. Until 5 October 2015, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 30% of the issued and outstanding ordinary shares, the approval of the Supervisory Board for some of these resolutions had to include the affirmative vote of the ING Group Nominees, see 'Supervisory Board – Composition' (Affirmative Vote). A number of the resolutions that required the Affirmative Vote is further described below. A complete list of these resolutions can be found in the Relationship Agreement, as in force until 2 February 2016.

Appointment, removal and suspension

As of 5 October 2015, NN Group applies the full large company regime. Under this regime the members of the Executive Board are appointed by the Supervisory Board. Prior to appointing a member of the Executive Board, the Supervisory Board must notify the General Meeting of such intended appointment.

Until 5 October 2015 NN Group applied the mitigated large company regime. Under this regime the members of the Executive Board were appointed by the General Meeting upon nomination of the Supervisory Board. The General Meeting could reject the nomination by a two-thirds majority of the votes cast by shareholders representing more than 50% of NN Group's issued share capital.

Under the full large company regime, only the Supervisory Board may suspend or remove a member of the Executive Board. However, the Supervisory Board is only entitled to remove a member of the Executive Board after the General Meeting has been consulted on the intended removal.

Under the mitigated large company regime, the General Meeting could suspend or remove a member of the Executive Board. A resolution to suspend or remove a member of the Executive Board other than pursuant to a proposal of the Supervisory Board required a two-thirds majority of votes cast representing more than 50% of NN Group's issued share capital. If such two-thirds majority of votes casts represented less than 50% of the issued share capital, no new meeting could be convened.

Corporate governance – continued

Executive Board – continued

Composition

The Executive Board must consist of two or more members, with the total number of members of the Executive Board determined by the Supervisory Board after consultation with the Executive Board.

The profile of the Executive Board is available on the corporate website. NN Group aims to have an adequate and balanced composition of the Executive Board. The Executive Board consists of two members and several relevant selection criteria need to be balanced when composing the Executive Board.

The composition of the Executive Board did not meet the gender balance of having at least 30% men and at least 30% women amongst the members of the Executive Board in 2015. NN Group will continue to strive for an adequate and balanced composition of the Executive Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

As at 31 December 2015 the Executive Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment
Lard Friese	Chair, Chief Executive Officer (CEO)	26 November 1962	male	Dutch	1 March 2014	2017
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	male	Spanish	1 March 2014	2018

Lard Friese was appointed as member and vice-chair of the Executive Board on 1 March 2014 and chair and Chief Executive Officer as from 7 July 2014. From 1 October 2013 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member and vice-chair of the Management Board of ING Verzekeringen. Mr Friese is responsible for the strategy, performance and day-to-day operations of NN. Mr Friese has been employed by ING since 2008 in various positions. He was appointed Chief Executive Officer of Nationale-Nederlanden and chair of the Dutch Intermediary Division (Nationale-Nederlanden, Movir, Westland Utrecht Bank) on 1 September 2008. In 2009, he became Chief Executive Officer of ING Insurance Benelux responsible for the whole of ING Insurance's operations in the Netherlands, Belgium and Luxembourg. He was appointed to the Management Board of ING Verzekeringen with responsibility for the Insurance operations in the Netherlands, Belgium and Luxembourg, Central and Rest of Europe and Asia/ Pacific on 1 January 2011 until 3 November 2011. From 30 March 2011 until 7 July 2014 he was appointed to the Management Board of NN Insurance Eurasia N.V., a direct subsidiary of NN Group and formerly named ING Insurance Eurasia N.V. (NN Insurance Eurasia). As of 1 July 2013 he also assumed responsibility for Investment Management in the Management Board of NN Insurance Eurasia and, as from the end of 2013, also for the insurance business in Japan. From 2006 to 2008 Mr Friese was employed by Ceska Pojistovna a.s. (Prague, Czech Republic) as Chief Executive Officer and vice-chair 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 Law degree from Utrecht University (the Netherlands). Besides being a member of the Executive Board, Mr Friese is a member of the board of representatives of Foundation VUmc CCA and a member of the Geneva Association.

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer on 1 March 2014. From 1 October 2013 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member of the Management Board and Chief Financial Officer of ING Verzekeringen. Mr Rueda has served as Chief Financial Officer and as a member of the Management Board of NN Insurance Eurasia from 1 November 2012 until 7 July 2014. Mr Rueda is responsible for NN's finance departments, the Chief Actuary Office, 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, Mr Rueda served as senior vice-president of the Financial Institutions Group, Corporate Finance at J.P. Morgan. Prior to that, from 1993 to 2000, he was executive director of the Financial Institutions Group, Corporate Finance at UBS. Mr Rueda began his career with Andersen Consulting, which later became Accenture, where he undertook different advisory assignments in information systems and 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 (US).

Remuneration

Information on the remuneration policy for members of the Executive Board and on their individual remuneration can be found in the Remuneration Report, on pages 29-33 of this Financial Report.

Corporate governance – continued

Management Board

Duties

The Management Board is entrusted with the day-to-day management and the overall strategic direction of NN Group. In performing its duties, the Management Board must carefully consider and act in accordance with the interests of NN Group and the business connected with it, taking into consideration the interests of all the stakeholders of NN Group. The authority to manage NN Group is vested in the Executive Board as a whole, notwithstanding that each of the members of the Management Board is responsible and accountable towards the Executive Board and within the Management Board for the specific tasks as assigned. The organisation, duties and working methods of the Management Board are detailed in the charter of the Management Board. This charter is available on the website of NN Group.

Composition, appointment and removal

The Management Board consists of the members of the Executive Board and such other members as appointed by the Executive Board after consultation with the Supervisory Board. The number of members of the Management Board is determined by the Executive Board.

The members of the Management Board may be suspended and removed by the Executive Board, after consultation with the Supervisory Board.

As at 31 December 2015 the Management Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment
Lard Friese	Chair, Chief Executive Officer (CEO)	26 November 1962	male	Dutch	7 July 2014
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	male	Spanish	7 July 2014
Stan Beckers	Chief Executive Officer NN Investment Partners	22 March 1952	male	Belgian	7 July 2014
Doug Caldwell	Chief Risk Officer (CRO)	17 September 1969	male	American	7 July 2014
David Knibbe	Chief Executive Officer Netherlands Insurance and Global IT	15 March 1971	male	Dutch	7 July 2014
Robin Spencer	Chief Executive Officer International Insurance	30 January 1970	male	British	1 August 2014
Dorothee van Vredenburch	Chief Change and Organisation (CCO)	10 September 1964	female	Dutch	7 July 2014

Information with respect to the members of the Management Board who are also members of the Executive Board, Lard Friese and Delfin Rueda, can be found under 'Executive Board – Composition', on page 19 of this Financial Report.

Stan Beckers was appointed to the Management Board as Chief Executive Officer NN Investment Partners as from 7 July 2014. From 1 July 2013 until 7 July 2014, he was a member of the Management Board and Chief Executive Officer of ING Investment Management International. Mr Beckers is responsible for NN's asset management business. Prior to joining ING in 2013, Mr Beckers held various positions in Barclays Global Investors which was later acquired by Blackrock. Mr Beckers served as co-head of Blackrock Solutions EMEA (2010–2013), he was Chief Investment Officer of Barclays Global Investors Europe Active Equity Group (2008–2010) and he served as Chief Executive Officer and Chief Investment Officer of Alpha Management Group of Barclays Global Investors (2004–2007). From 2003 to 2004, Mr Beckers served as chief investment officer of Kedge Capital. From 2000 to 2003, Mr Beckers served as Chief Investment Officer of WestLB Asset Management. Prior to that, from 1982 to 2000, he held various functions, the last one being Chief Executive Officer of Barra Institutional Analytics. Mr Beckers started his career in 1979 as a professor of Finance at KU Leuven, Belgium. Over the past 25 years, Mr Beckers also has been a member of the Investment Committees at several pension funds and of the supervisory board at KAS Bank, Robeco, Econowealth and St Lawrence Trading Inc. He has a PhD in Business Administration from the University of California, Berkeley (US) and has an engineering degree in Quantitative Methods and Computer Sciences from KU Leuven (Belgium). Besides being a member of the Management Board, Mr Beckers is a visiting professor at KU Leuven.

Doug Caldwell was appointed to the Management Board as Chief Risk Officer as from 7 July 2014. From 1 October 2013 until 7 July 2014, he first was a member of the Management Board and Chief Risk Officer of ING Verzekeringen and, after the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, of NN Group. Since 1 December 2012, he has been Chief Risk Officer and a member of the Management Board of NN 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 a 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 (US), he is a Fellow of the Society of Actuaries and is a Chartered Enterprise Risk Analyst. Besides being a member of the Management Board, Mr Caldwell is a member of the board of directors of Global Refuge International (US based non-profit organisation).

David Knibbe was appointed to the Management Board as from 7 July 2014. From 1 January 2011 until 1 September 2014, he served as Chief Executive Officer of ING Insurance Europe. From 1 September 2014, Mr Knibbe was appointed Chief Executive Officer of Netherlands Insurance. In his role as Chief Executive Officer Netherlands Insurance, Mr Knibbe is responsible for NN's insurance and banking business in the Netherlands. He is also responsible for IT globally. During the year 2010, Mr Knibbe was Chief Executive Officer Insurance Corporate Clients in the Netherlands. From 2007 to 2008, Mr Knibbe was general manager of Nationale-Nederlanden Individual Life (retail life and individual pensions), which then became Intermediary Pensions and Retail Life with the addition of the SME pensions business in 2008.

Corporate governance – continued

Management Board – continued

In 2009, Mr Knibbe became general manager Pensions with the addition of corporate pensions and removal of retail life from his area of responsibility. Prior to that, from 2004 to 2007, Mr Knibbe was director Disability and Accident Insurance of Nationale-Nederlanden. From 2002 to 2004, he was managing director of ING's life insurance and employee benefits joint venture with Piraeus Bank in Greece. Mr Knibbe was head of Investments of Central-Holland of ING Bank from 2000 to 2002. Mr Knibbe started his professional career in 1997 when he joined ING, serving in various positions in investment management and banking. Mr Knibbe has a degree in Monetary Economics from the Erasmus University in Rotterdam (the Netherlands). Besides being a member of the Management Board, Mr Knibbe is chair of the board of the Dutch Association of Insurers (Verbond van Verzekeraars) (appointed in December 2015) and member of the board of the Confederation of Netherlands Industry and Employers (VNO-NCW).

Robin Spencer was appointed to the Management Board as from 1 August 2014 and as Chief Executive Officer International Insurance on 1 September 2014. He is responsible for all NN Group's international insurance businesses as well as reinsurance globally. He has over 20 years' experience in the insurance industry across life, non-life and asset management in the UK and internationally. Mr Spencer was previously Chief Executive Officer of Aviva UK & Ireland General Insurance and member of the Aviva's executive committee. From 2010 to 2012, Mr Spencer was Chief Risk Officer of Aviva and was chair of the European CRO Forum in 2012. Mr Spencer was Chief Executive Officer of Aviva Canada from 2007 to 2010 having previously been the Chief Financial Officer of Aviva Canada from 2005 to 2007. While in Canada, Mr Spencer was on the Board and, in 2009, chair of the Canadian Property and Casualty Insurance Compensation Corporation.

Mr Spencer started his career as a financial analyst with Procter & Gamble and is a qualified accountant (ACMA). He holds an MA in Economics from Aberdeen University.

Dorothee van Vredenburch was appointed to the Management Board as chief change and organisation as from 7 July 2014. From 1 October 2013 until 7 July 2014, she first was a member of the Management Board of ING Verzekeringen and, after the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, of NN Group. Ms van Vredenburch has also been a member of the Management Board of NN Insurance Eurasia since 1 November 2012. Ms van Vredenburch is responsible for NN's HR, communications and sustainability. Ms van Vredenburch joined ING in 2009 as managing director of Corporate Communications and Affairs of ING Group and, from 2010, also of NN Insurance Eurasia. Prior to joining ING in 2009, Ms van Vredenburch served as managing director and chair of the board for Citigate Europe (from 2001 to 2005) and in 2007 she founded RedZebra Group, a Netherlands-based consulting firm. Ms van Vredenburch started her career in 1987 as investment analyst at Amro International Services (London) and 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. Ms van Vredenburch holds a BTEC HND degree in Business and Finance from CCAT in Cambridge (UK). Besides being a member of the Management Board, Ms van Vredenburch is a member of the board of Junior Achievement Europe.

Supervisory Board

Duties

The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board may, on its own initiative, provide the Executive Board with advice and may request any information from the Executive Board that it deems appropriate. In performing its duties, the Supervisory Board must carefully consider and act in accordance with the interests of NN Group and the business connected with it, taking into consideration the relevant interests of all the stakeholders of NN Group. The organisation, duties and working methods of the Supervisory Board are detailed in the charter of the Supervisory Board. This charter is available on the website of NN Group.

Appointment, removal and suspension

The members of the Supervisory Board are appointed by the General Meeting upon nomination of the Supervisory Board. The General Meeting and the works council of NN Group (Works Council) may recommend candidates for nomination to the Supervisory Board. The Supervisory Board must simultaneously inform the General Meeting and the Works Council of the nomination. The nomination must state the reasons on which it is based.

The Supervisory Board is required to nominate one-third of the Supervisory Board members on the enhanced recommendation (versterkt aanbevelingsrecht) of the Works Council, unless the Supervisory Board objects to the recommendation on the grounds that the recommended candidate is not suitable to fulfil the duties of a member of the Supervisory Board or that the Supervisory Board will not be properly composed if the nominated candidate would be appointed.

The General Meeting may reject the nomination of a Supervisory Board member by an absolute majority of the votes cast by shareholders representing at least one-third of NN Group's issued share capital. If the General Meeting resolves to reject the nomination by an absolute majority of the votes cast, but this majority does not represent at least one-third of NN Group's issued share capital, a new meeting can be convened in which the nomination can be rejected by an absolute majority of the votes cast, irrespective of the part of NN Group's issued share capital represented. If the General Meeting resolves to reject the recommendation, the Supervisory Board will then prepare a new nomination. If the General Meeting does not appoint the person nominated by the Supervisory Board and does not resolve to reject the nomination, the Supervisory Board will appoint the person nominated.

Corporate governance – continued

Supervisory Board – continued

A member of the Supervisory Board is appointed for a maximum period of four years. The members of the Supervisory Board retire periodically in accordance with a rotation plan drawn up by the Supervisory Board. This rotation plan is available on the website of NN Group.

The Supervisory Board may suspend a member of the Supervisory Board. The suspension will lapse by law if NN Group has not submitted a petition to the Commercial Division of the Amsterdam Court of Appeal (Ondernemingskamer van het Gerechtshof te Amsterdam) within one month after commencement of the suspension.

The General Meeting can, by an absolute majority of votes cast, representing at least one-third of the issued share capital, resolve to abandon its trust (het vertrouwen opzeggen) in the entire Supervisory Board. A resolution to remove the Supervisory Board for lack of confidence cannot be adopted until the Executive Board has notified the Works Council of the proposal for the resolution and the reasons therefore. If the General Meeting removes the Supervisory Board members for lack of confidence, the Executive Board must request the Commercial Division of the Amsterdam Court of Appeal to temporarily appoint one or more Supervisory Board members.

Composition

The Supervisory Board must consist of three or more members, with the total number of members of the Supervisory Board determined by the Supervisory Board. As at 31 December 2015 the Supervisory Board consisted of five members. As of 2 February 2016 the Supervisory Board consists of seven members, who are all independent within the meaning of best practice provision III.2.2. of the Dutch Corporate Governance Code.

Until 5 October 2015, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 35% of the issued and outstanding ordinary shares, ING Group had a right to nominate three members of the Supervisory Board (ING Group Nominees) and to nominate and propose replacements for these members. As of this date, ING Group's right was limited to two ING Group Nominees. ING Group's right lapsed on 2 February 2016, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 15% of the issued and outstanding ordinary shares. The nomination rights of ING Group will not revive should ING Group's shareholding subsequently re-exceed the relevant thresholds.

Until 5 October 2015, the Works Council only exercised its enhanced recommendation right in respect of one member of the Supervisory Board. In accordance with the Relationship Agreement, as in force until 2 February 2016, the Works Council further exercised its enhanced recommendation right upon resignation of the first of the ING Group Nominees on 6 October 2015.

The profile of the Supervisory Board is available on the corporate website. NN Group aims to have an adequate and balanced composition of the Supervisory Board, including a gender balance by having at least 30% men and at least 30% women amongst its members. However, because of the fact that several relevant selection criteria need to be balanced when composing the Supervisory Board, the composition of the Supervisory Board did not meet the above-mentioned gender balance in 2015, except for the period from 14 December 2015 up to and including 31 December 2015. NN Group will continue to strive for an adequate and balanced composition of the Supervisory Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

On 31 December 2015 the Supervisory Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment
Jan Holsboer	Chair	8 May 1946	male	Dutch	1 March 2014	2016
Heijo Hauser	Member	23 June 1955	male	German	7 July 2014	2018
Yvonne van Rooij	Member (recommended by Works Council)	4 June 1951	female	Dutch	1 March 2014	2016
Hans Schoen	Member	2 August 1954	male	Dutch	7 July 2014	2018
Hélène Vletter -van Dort	Member (recommended by Works Council)	15 October 1964	female	Dutch	6 October 2015	2019

Jan Holsboer was appointed to the Supervisory Board on 1 March 2014. He was appointed chair on 7 July 2014. From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member of the supervisory board of ING Verzekeringen. From 14 May 2012 until 7 July 2014, Mr Holsboer was also a member of the supervisory boards of ING Group, ING Bank N.V. ('ING Bank') and NN Insurance Eurasia. 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 Group. As per 18 March 2016, he resigned as 'non-executive' (senior independent) director of PartnerRe Ltd (Bermuda). Besides being a member of the Supervisory Board, Mr Holsboer is, among others, chair of the Supervisory Board of TD Bank N.V., non-executive director of YAFA S.p.A. (Turin, Italy) and a member of the Supervisory Board of YAM Invest N.V.

Heijo Hauser was appointed to the Supervisory Board as from 7 July 2014. From January 1991 until June 2011, Mr Hauser was managing director of Towers Watson in Germany. He specialised in providing consulting services to insurance companies in areas such as strategy, distribution, product and risk management. He also managed Towers Watson's businesses in the German speaking, Nordic and Central European countries. From September 1987 until December 1990, Mr Hauser was managing director of the travel and financial services subsidiaries of Metro in Germany. Other previous positions include sales director of Deutsche Krankenversicherung and marketing actuary of Victoria Lebensversicherung. Mr Hauser holds a Master's degree in Mathematics from the Ruhr University of Bochum (Germany), and is a member of the German Actuarial Society. Besides being a member of the Supervisory Board, Mr Hauser is chair of the board of Freundeskreis Elisabeth-Hospiz e.V.

Corporate governance – continued

Supervisory Board – continued

Yvonne van Rooij was appointed to the Supervisory Board on 1 March 2014. From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, she was a member of the supervisory board of ING Verzekeringen. From 14 May 2012 until 7 July 2014, Ms van Rooij was also a member of the supervisory boards of ING Group, ING Bank and NN Insurance Eurasia. Besides being a member of the Supervisory Board, Ms van Rooij is member of the supervisory board of Holding Pricewaterhouse Coopers Nederland B.V., chair of Nederlandse Vereniging van Ziekenhuizen (Dutch association of hospitals), chair of the supervisory board of Philips Electronics Nederland B.V., a member of the board of Stichting Administratiekantoor Koninklijke Brill N.V., a member of the board of Stichting Koninklijk Concertgebouworkest, a member of the advisory board of Nexus Institute, a member of the board of Stichting Instituut GAK, a member of the board of the Confederation of Netherlands Industry and Employers (VNO-NCW), and a member of the advisory council of the Ministry of Finance on public reporting, a member of the advisory board of Stichting Nationaal Fonds Kunstbezit, a member of the curatorium of protectors National Monument Kamp Vught and a member of the supervisory board of Stichting Gemeentemuseum Den Haag. Ms van Rooij's previous positions include, among others, Minister of Foreign Trade, member of the Dutch Parliament and member of the European Parliament. She was also President of Utrecht University.

Hans Schoen was appointed to the Supervisory Board as from 7 July 2014. From September 1977 until October 2008, Mr Schoen worked at KPMG Accountants and was a partner from January 1989 onwards. He specialised in providing audit and advisory services to domestic and foreign insurance companies. Other former significant positions of Mr Schoen include member and chair of several insurance industry committees of the NIVRA and the Dutch Accounting Standard Boards. He was also member of the governmental advice committee Traas in respect of the financial and prudential reporting obligations of Dutch insurance companies, member of several advisory committees of the IASC/IASB on insurance company financial reporting requirements and member and part-time acting director of research of the Technical Expert Group of EFRAG in Brussels (Belgium). Mr Schoen holds a degree in Economics and a Postdoctoral degree in Accountancy from the University of Amsterdam (the Netherlands). In September 2015, he also obtained a PhD at the VU University Amsterdam (the Netherlands). Besides being a member of the Supervisory Board, Mr Schoen is chair of the EFRAG Insurance Accounting Working Group.

Hélène Vletter-van Dort was appointed to the Supervisory Board on 6 October 2015. Besides being a member of the Supervisory Board Ms Vletter-van Dort is, among others, professor of Financial Law & Governance at the Erasmus School of Law, professor of Securities Law at the University of Groningen, member of the Monitoring Committee Corporate Governance Code, chair of the supervisory board of Intertrust N.V., arbitrator with the Netherlands Arbitration Institute and chair of the Appeal Panel of the Single Resolution Board. Ms Vletter-van Dort is a former member of the supervisory board of the Dutch Central Bank and former chair of its committee on supervisory policy. Other previous positions include, among others, visiting research professor at New York University, judge at the Enterprise Chamber of the Amsterdam Court of Appeal, lawyer at Clifford Chance in Amsterdam (the Netherlands) and member of the supervisory board of Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V.

On 2 February 2016, the appointments of Dick Harryvan and Robert Jenkins as members of the Supervisory Board became effective:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment
Dick Harryvan	Vice-chair (as of 24 February 2016)	10 May 1953	male	Dutch	2 February 2016	2020
Robert Jenkins	Member	17 January 1951	male	American	2 February 2016	2020

Dick Harryvan was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. He was appointed vice-chair of the Supervisory Board on 24 February 2016. From 2006 through 2009 Mr Harryvan was a member of the executive board of ING Group and Chief Executive Officer of ING Direct. Other former positions include co-chair of the International Academy of Retail Banking, non-executive director of Voya Financial Inc., general manager Bancassurance at ING Bank, deputy general manager at Nationale-Nederlanden and vice-president Operations of The Halifax Insurance Company. Besides being a member of the Supervisory Board Mr Harryvan is, among others, member of the advisory board of Gulf Bank, member of the supervisory board of ANWB B.V., member of the advisory board of the Official Monetary and Financial Institutions Forum (OMFIF) and partner at Orange Growth Capital.

Robert Jenkins was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. From 2009 until 2014, Mr Jenkins was a senior advisor to CVC Capital Partners. From 2011 until 2013 he was an external member of the interim Financial Policy Committee of the Bank of England. Mr Jenkins was Chief Executive Officer and managing partner of Combinatorics Capital, LLC. from September 2009 until July 2011. Mr Jenkins has also served as chair of the Investment Management Association, United Kingdom, chair of the board of F&C Asset Management, plc. (non-executive) and Chief Executive Officer of the F&C Group. Other former positions include Chief Executive Officer of Foreign & Colonial Management Limited, managing director and Chief Operating Officer of Credit Suisse Asset Management Holding, United Kingdom, Chief Executive Officer and Chief Investment Officer of Credit Suisse Investment Management Group Ltd., United Kingdom, chief investment officer and head of asset management of Credit Suisse, Japan, and senior executive in the Citigroup trading and sales organisation. Besides being a member of the Supervisory Board Mr Jenkins is, amongst others, chair of the AQR Asset Management Institute at London Business School, adjunct professor of Finance at the London Business School, senior fellow at Better Markets and member of the Board of Governors of the CFA Institute.

Corporate governance – continued

Supervisory Board – continued

More information on the composition of the Supervisory Board can be found in the Report of the Supervisory Board Report on pages 10–17 of this Financial Report.

Remuneration

Information on the remuneration of the members of the Supervisory Board can be found in the Remuneration Report, on pages 29-33 of this Financial Report.

Committees of the Supervisory Board

General

The Supervisory Board has established from among its members four committees: the Audit Committee, the Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. The function of these committees is to prepare the discussion and decision-making of the Supervisory Board. The organisation, duties and working methods of the committees of Supervisory Board are detailed in a separate charter for each committee. These charters are available on the website of NN Group.

Audit Committee

The Audit Committee assists the Supervisory Board in supervising the activities of the Executive Board with respect to, among other things, the structure and operation of the internal risk-management and control systems, the financial-reporting process, the preparation and disclosure of periodic financial reports and any ad hoc financial information, compliance with legislation and regulations and the independence and performance of NN Group's internal and external auditors.

Information on the composition of the Audit Committee can be found in the Report of the Supervisory Board on page 14 of this Financial Report.

Risk Committee

The Risk Committee assists the Supervisory Board in supervising the activities of the Executive Board with respect to NN Group's strategy, its financial policies and risk policies, including the risks inherent in its business activities and the financing of NN Group.

Information on the composition of the Risk Committee can be found in the Report of the Supervisory Board on page 15 of this Financial Report.

Remuneration Committee

The Remuneration Committee advises the Supervisory Board, among other things, on the terms and conditions of employment, including their remuneration, of members of the Executive Board and the policies and general principles on which the terms and conditions of employment of members of the Executive Board, members of the Management Board, senior managers and other employees of NN Group and its subsidiaries are based.

Information on the composition of the Remuneration Committee can be found in the Report of the Supervisory Board on page 16 of this Financial Report.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee advises the Supervisory Board, among other things, on the composition of the Supervisory Board and Executive Board and assists the Supervisory Board in monitoring and evaluating the corporate governance of NN Group as a whole and the reporting thereon in the Annual Report and to the General Meeting.

Information on the composition of the Nomination and Corporate Governance Committee can be found in the Report of the Supervisory Board on page 17 of this Financial Report.

Corporate governance – continued

General Meeting

Frequency, notice and agenda

Each year, not later than in the month of June, a general meeting is held. Its general purpose is to discuss the Annual Report, adopt the financial statements, release the members of the Executive Board and the members of the Supervisory Board from liability for their respective duties, appoint and reappoint members of the Executive Board and Supervisory Board and decide on dividend to be declared, if applicable, and to decide on other items that require shareholder approval under Dutch law. Extraordinary general meetings are held whenever the Supervisory Board or the Executive Board deems such to be necessary. In addition, one or more shareholders who jointly represent at least 10% of the issued share capital of NN Group may, on application, be authorised by the court in interlocutory proceedings of the district court to convene a general meeting.

General meetings are convened by a public notice via the website of NN Group no later than on the forty-second day before the day of the general meeting. The notice includes in any event the place and time of the meeting and the agenda items. Shareholders who, alone or jointly, represent at least 3% of the issued share capital of NN Group may request to place items on the agenda, provided that the reasons for the request are stated therein and the request must be received by the chair of the Executive Board or the chair of the Supervisory Board in writing at least 60 days before the date of the general meeting.

Admission to the general meetings

Each holder of shares in the share capital of NN Group entitled to vote, and each other person entitled to attend and address the general meeting, is authorised to attend the general meeting, to address the general meeting and to exercise voting rights. For each general meeting a statutory record date will in accordance with Dutch law be set on the twenty-eighth day prior to the date of the general meeting, in order to determine in which persons voting rights and rights to attend and address the general meeting are vested. Those entitled to attend and address a general meeting may be represented at a general meeting by a proxy holder authorised in writing.

Voting and resolutions

Each share in the share capital of NN Group confers the right on the holder to cast one vote.

At a general meeting all resolutions must be adopted by an absolute majority of the votes cast, except in those cases in which the law or the Articles of Association require a greater majority. If there is a tie in voting, the proposal concerned will be rejected.

Powers of the General Meeting

The most important powers of the General Meeting are to:

- Appoint members of the Executive Board upon nomination of the Supervisory Board, as long as NN Group applied the mitigated large company regime
- Suspend and remove members of the Executive Board, as long as NN Group applied the mitigated large company regime
- Appoint members of the Supervisory Board upon nomination of the Supervisory Board
- Recommend persons to the Supervisory Board for nomination as a member of that board
- Abandon its trust in the Supervisory Board
- Release the members of the Executive Board and the members of the Supervisory Board from liability for their respective duties
- Adopt the financial statements
- Appoint the external auditor
- Approve resolutions of the Executive Board regarding important changes in the identity or character of NN Group or its business
- Issue shares, restrict or exclude pre-emptive rights of shareholders and delegate these powers to the Executive Board, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Authorise the Executive Board to repurchase shares
- Reduce the issued share capital, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Adopt the remuneration policy for the members of the Executive Board, upon a proposal of the Supervisory Board, and the remuneration of the members of the Supervisory Board
- Dispose the profit remaining after the payment of dividend on any outstanding preference shares and after a decision has been taken on the addition of all or part of the profits to the reserves, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Amend the Articles of Association, upon a proposal of the Executive Board which has been approved by the Supervisory Board

Shares and share capital

Classes of shares and NN Group Continuity Foundation

The authorised share capital of NN Group consists of ordinary shares and preference shares. Depositary receipts for shares are not issued with the cooperation of NN Group.

Currently, only ordinary shares are issued, while a call option to acquire preference shares is granted to the foundation (stichting): Stichting Continuiteit NN Group ('NN Group Continuity Foundation'). The objects of NN Group Continuity Foundation are to protect the interests of NN Group, the business maintained by NN Group and the entities with which NN Group forms a group and all persons involved therein, in such way that the interest of NN Group and those businesses and all persons involved therein are protected to the best of its abilities, and by making every effort to prevent anything which may affect the independence and/or the continuity and/or the identity of NN Group and of those businesses in violation of the interests referred above.

NN Group Continuity Foundation shall pursue its objects, inter alia, by acquiring and holding preference shares in the share capital of NN Group and by enforcing the rights, in particular the voting rights, attached to those preference shares. To this end, NN Group Continuity Foundation has been granted a call option by NN Group.

According to the call option agreement concluded between NN Group and NN Group Continuity Foundation, NN Group Continuity Foundation has the right to subscribe for preference shares in the share capital of NN Group, consisting of the right to subscribe for such preference shares repeatedly, each time up to a maximum corresponding with 100% of the issued share capital of NN Group in the form of ordinary shares, as outstanding immediately prior to the exercise of the subscribed rights, less one share, from which maximum shall be deducted any preference shares already placed with NN Group Continuity Foundation at the time of the exercise of the subscribed rights.

Corporate governance – continued

Shares and share capital – continued

Until 5 October 2015, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 30% of the issued and outstanding ordinary shares, NN Group Continuity Foundation could not exercise the call option without the prior consent of ING Group.

As at 31 December 2015, the board of NN Continuity Foundation consisted of three members, who are independent from NN Group: Marc van Gelder (chair), Hessel Lindenbergh (treasurer) and Steven Perrick (secretary).

Issuance of shares

The General Meeting may resolve to issue shares in the share capital of NN Group, or grant rights to subscribe for such shares, upon a proposal of the Executive Board which has been approved by the Supervisory Board, including the Affirmative Vote until 5 October 2015. The Articles of Association provide that the General Meeting may delegate the authority to issue shares, or grant rights to subscribe for shares, to the Executive Board, upon a proposal of the Executive Board which has been approved by the Supervisory Board (including the Affirmative Vote until 5 October 2015).

If the Executive Board has been designated as the body authorised to resolve upon an issue of shares in the share capital of NN Group, the number of shares of each class concerned must be specified in such designation and upon such designation, the duration of the designation shall be set, which shall not exceed five years. A resolution of the Executive Board to issue shares requires the approval of the Supervisory Board, including the Affirmative Vote until 5 October 2015.

On 28 May 2015, the General Meeting designated the Executive Board for a term of 18 months, starting on 28 May 2015 and thus ending on 28 November 2016, as the competent body to resolve, subject to the approval of the Supervisory Board, on the issuance of ordinary shares in the share capital of NN Group and on the granting of rights to subscribe for such shares. The authority of the Executive Board is limited to a maximum of 10% of the issued share capital of NN Group at 28 May 2015, plus a further 10% of the issued share capital of NN Group at 28 May 2015 in case of a merger or acquisition or, if necessary in the opinion of the Executive Board and the Supervisory Board, to safeguard or conserve the capital position of NN Group.

Pre-emptive rights

Each holder of ordinary shares in the share capital of NN Group has a pre-emptive right in proportion to the aggregate nominal value of its shareholding of ordinary shares upon the issue of new ordinary shares (or the granting of rights to subscribe for ordinary shares). Holders of ordinary shares have no pre-emptive right upon (a) the issue of new ordinary shares (or the granting of rights to subscribe for ordinary shares): (i) against a payment in kind (ii) to employees of NN Group or of a group company or (iii) to persons exercising a previously-granted right to subscribe for ordinary shares and (b) the issue of preference shares.

Upon a proposal of the Executive Board which has been approved by the Supervisory Board, the General Meeting may resolve to limit or exclude the pre-emptive rights. According to the Articles of Association, the General Meeting may designate the Executive Board as the competent body to do so upon a proposal of the Executive Board which has been approved by the Supervisory Board (including the Affirmative Vote until 5 October 2015).

Both resolutions require a majority of at least two-thirds of the votes cast, if less than one-half of the issued share capital is represented at the general meeting. The designation to the Executive Board to resolve to limit or exclude the pre-emptive rights may be granted for a specified period of time of not more than five years and only if the Executive Board has also been designated or is simultaneously designated the authority to resolve to issue shares. A resolution of the Executive Board to limit or exclude the pre-emptive rights requires the approval of the Supervisory Board.

On 28 May 2015, the General Meeting designated the Executive Board for a term of 18 months, starting on 28 May 2015 and thus ending on 28 November 2016, as the competent body to resolve, subject to the approval of the Supervisory Board, to limit or exclude the pre-emptive rights of existing shareholders.

Acquisition of own shares

NN Group may acquire fully paid-up shares in its own share capital for no consideration (om niet) or if: (a) NN Group's shareholders' equity less the payment required to make the acquisition, does not fall below the sum of called-up and paid-in share capital and any statutory reserves, and (b) the nominal value of the shares which NN Group acquires, holds or holds as pledge, or which are held by a subsidiary, does not exceed half of the issued share capital. The acquisition of its own shares by NN Group for consideration requires authorisation by the General Meeting. The authorisation is not required for the acquisition of shares for employees of NN Group or of a group company under a scheme applicable to such employees. The Executive Board may resolve, subject to the approval of the Supervisory Board, including the Affirmative Vote until 5 October 2015, to alienate the shares acquired by NN Group in its own share capital. The resolution of the Executive Board to acquire shares in its own share capital for consideration requires the prior approval of the Supervisory Board, including the Affirmative Vote until 5 October 2015. No voting rights may be exercised in the general meeting with respect to any share or depositary receipt for such share held by NN Group or by a subsidiary, and no payments will be made on shares which NN Group holds in its own share capital.

On 28 May 2015, the General Meeting authorised the Executive Board for a term of 18 months, starting on 28 May 2015 and thus ending on 28 November 2016, to acquire in the name of NN Group, subject to the approval of the Supervisory Board, fully paid-up ordinary shares in the share capital of NN Group. This authorisation is subject to the condition that following the acquisition the aggregate par value of the ordinary shares in the share capital of NN Group which are held or held as pledge by NN Group, or held by its subsidiaries for their own account, shall not exceed 10% of the issued share capital of NN Group at 28 May 2015, or 20% in case of a major capital restructuring. Shares may be acquired at the stock exchange or otherwise, at a price not less than the par value of the ordinary shares in the share capital of NN Group and not higher than 110% of the highest market price of the shares on Euronext Amsterdam on the date of the acquisition or on the preceding day of stock market trading.

Transfer of shares and transfer restrictions

The transfer of ordinary shares in the share capital of NN Group included in the Statutory Giro System must take place in accordance with the provisions of the Dutch Securities Giro Act (Wet giraal effectenverkeer).

Corporate governance – continued

Shares and share capital – continued

The transfer of shares in the share capital of NN Group not included in the Statutory Giro System requires an instrument intended for that purpose. To become effective, NN Group has to acknowledge the transfer, unless NN Group itself is a party to the transfer. The Articles of Association do not restrict the transfer of ordinary shares in the share capital of NN Group, while the transfer of preference shares in the share capital of NN Group requires the prior approval of the Executive Board.

NN Group is not aware of the existence of any agreement pursuant to which the transfer of ordinary shares in the share capital of NN Group is restricted.

Significant shareholdings

Pursuant to the Dutch Financial Supervision Act (Wet op het financieel toezicht), any person who, directly or indirectly, acquires or disposes of a capital interest and/or voting rights in NN Group must immediately give notice to the Dutch Authority for Financial Markets (Autoriteit Financiële Markten) of such acquisition or disposal if, as a result of such acquisition or disposal, the percentage of capital interest and/or voting rights held by such person reaches, exceeds or falls below the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

Information on shareholders with an (indirect) interest of 3% or more can be found in the chapter 'Creating value as an investor' in the Annual Review, page 31, and is deemed to be incorporated by reference herein.

Pursuant to EU regulation No 236/2012, each person holding a net short position representing 0.2% of the issued share capital of NN Group must report this position, and any subsequent increase by 0.1% to the Dutch Authority for Financial Markets.

Each net short position equal to 0.5% of the issued share capital of NN Group and any subsequent increase of that position by 0.1% will be made public via the short selling register of the Dutch Authority for Financial Markets.

Each person holding a gross short position in relation to the issued share capital of NN Group that reaches, exceeds or falls below any one of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%, must immediately give written notice to the Dutch Authority for Financial Markets.

Transactions between NN Group and any legal or natural person who holds at least 10% of the shares in NN Group will be agreed on terms that are customary in the sector concerned. An overview of related party transactions can be found on page 116 of this Financial Report and is deemed to be incorporated by reference herein.

Warrant agreement

On 10 June 2014, NN Group and ING Group entered into a warrant agreement in which NN Group has agreed to issue warrants to ING Group that will be exercisable for a number of ordinary shares in the share capital of NN Group up to 9.99% in the aggregate of the issued ordinary shares immediately following the Settlement Date or 34,965,000 ordinary shares. These warrants include certain customary anti-dilution provisions which provide for adjustments of both the initial exercise price and the number of ordinary shares in the share capital of NN Group to which the holder of the warrants is entitled to, in case of corporate events which lead to an immediate impact on the share price such as a share buyback, stock split, rights issue, extraordinary dividend, etc. The warrants became exercisable starting on the first anniversary of the Settlement Date and will expire on the tenth anniversary of the Settlement Date. ING Group has committed to not exercise its warrant before the third anniversary of the Settlement Date. Upon exercise of a warrant, the holder thereof will receive the number of ordinary shares in the share capital of NN Group into which such warrant is exercisable against payment of the aggregate exercise price. The holders of warrants will not be entitled, by virtue of holding warrants, to vote, to consent, to receive dividends, if any, to receive notices with respect to any general meeting or to exercise any rights whatsoever as the holders of shares in the share capital of NN Group until they become holders of the ordinary shares in the share capital of NN Group issued upon exercise of the warrants.

Codes

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code. The application of the Dutch Corporate Governance Code by NN Group is described in the publication 'Application of the Dutch Corporate Governance Code by NN Group, Financial Year 2015', dated March 2016, which is available on the website of NN Group. This publication is to be read in conjunction with this chapter and is deemed to be incorporated by reference herein. The Dutch Corporate Governance Code is available on the website of the Dutch Corporate Governance Code Monitoring Committee (www.commissiecorporategovernance.nl).

Corporate governance – continued

Articles of Association

The General Meeting may pass a resolution to amend the Articles of Association with an absolute majority of the votes cast, but only on a proposal of the Executive Board, which has been approved by the Supervisory Board, including the Affirmative Vote until 5 October 2015.

Change of Control

NN Group is not a party to any material agreement that takes effect, alters or terminates upon a change of control of NN Group following a take-over bid as referred to in art. 5:70 of the Dutch Financial Supervision Act, other than a revolving credit facility agreement entered into with a syndicate of lenders and, until 2 February 2016, the Relationship Agreement. The revolving credit facility agreement includes a change of control provision which entitles the lenders to cancel the commitment under the facility and declare any outstanding amounts under the facility immediately due and payable whereupon such amounts will become immediately due and payable.

The assignment contracts with the members of the Executive Board provide for severance payments, which are to become due in case of termination of the contract in connection with a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Corporate Governance Code and the Dutch Financial Supervision Act.

External auditor

The external auditor is appointed by the General Meeting upon nomination of the Supervisory Board. On 13 May 2013 the General Meeting of ING Group extended the appointment of Ernst & Young Accountants LLP (EY) as external auditor of ING Group and its subsidiaries, including NN Group, for the financial years 2014 and 2015, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements. On 6 May 2014, the General Meeting confirmed this appointment. On 28 May 2015, the General Meeting appointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2016 through 2019.

The external auditor may be questioned at the General Meeting in relation to its audit opinion on the financial statements. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and the Risk Committee in 2015.

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

Financial reporting

A description of the main characteristics of the risk management and control systems with regard to the process of financial reporting of NN Group and its group companies can be found in Note 50 on pages 119–141, which is deemed to be incorporated by reference herein.

Corporate governance statement

This chapter, including parts of this Annual Report incorporated by reference, together with the separate publication 'Application of the Dutch Corporate Governance Code by NN Group, Financial Year 2015', dated March 2016, which is available on the website of NN Group, also serves as the corporate governance statement referred to in section 2a of the Decree with respect to the contents of the Annual Report (Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag).

Remuneration Report

Introduction

This Remuneration Report describes NN Group's remuneration philosophy and system. Furthermore, details are provided on the remuneration of the Supervisory Board and the Executive Board. This Report is divided into the following subsections:

i. Remuneration in general
ii. Remuneration of the Executive Board
iii. Remuneration of the Supervisory Board

I. Remuneration in general

NN Group has an overall remuneration policy described in the NN Group Remuneration Framework, which provides for reward guidelines and principles for all country and business unit remuneration policies within NN Group. NN Group aims to apply a clear and transparent remuneration policy that is adequate to attract and retain expert leaders, senior staff and other highly qualified employees. The remuneration policy is also designed to support NN Group's employees to act with integrity and keep the future of our clients, our company and other stakeholders in mind.

NN Group's remuneration policy for executives and senior staff is based on a total compensation approach and is benchmarked on a regular basis (where data is available) with relevant national and international peers, both within and outside the financial sector. Clear performance objectives are set and assessed which are aligned with the overall strategy of NN Group, both in the short and long term, to ensure that remuneration is properly linked to individual, team and NN Group performance.

The remuneration policy supports a focus on the company's long term interests and the interests of its clients by ensuring that there is careful management of risk and that staff are not encouraged, via remuneration, to take excessive risk. In addition, the remuneration policy ensures that NN Group complies with all the relevant (inter) national regulations on remuneration, such as the Dutch Central Bank's Regulation for Sound Remuneration (Regeling Beheerst Beloningsbeleid Wft 2014) and the Act on the Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen), as relevant to our business. The remuneration disclosure based on art. 25 Dutch Central Bank's Regulation for Sound Remuneration (Regeling Beheerst Beloningsbeleid Wft 2014) is published on the website of NN Group.

With respect to performance year 2015, the total amount of variable remuneration approved is EUR 83.5 million. The amounts will be processed in March or April 2016. The total number of staff of NN Group eligible for variable remuneration is 10,900.

II. Remuneration of the Executive Board

The Executive Board members were appointed to the Executive Board on 1 March 2014. The Executive Board members have an engagement contract (in Dutch: overeenkomst van opdracht) with NN Group N.V. and have been appointed to the Executive Board for a period of three years (CEO) and four years (CFO). Their contracts allow for re-appointment to the Executive Board for consecutive periods of up to four years. In the event the contract is terminated upon initiative of the Company, the Executive Board members are entitled to a gross severance payment of one year base salary, except in the following circumstances: (i) the contract was terminated for cause; or (ii) if payment would be deemed reward for failure at the sole discretion of the Supervisory Board; or (iii) if the Executive Board member takes the initiative to terminate the contract.

The remuneration policy of the members of the Executive Board as per 7 July 2014, was amended due to the introduction of new legislation: the Act on the Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen) and new Dutch pension legislation (Witteveenkader 2015). The amended remuneration policy was approved by the General Meeting on 28 May 2015 and effective with retroactive effect as per 1 January 2015. The data presented in this report relates to remuneration awarded to the members of the Executive Board in respect of the whole of 2015.

The 2015 remuneration of the Executive Board members consisted of a combination of fixed remuneration (base salary (of which 80% is paid in cash and 20% in shares) and base salary allowances), variable remuneration, pension arrangements and other emoluments as described below. The total compensation of the Executive Board is benchmarked annually against market data that includes peers both inside and outside the financial sector in the Netherlands and abroad. Peers are selected with reference to asset base, market capitalisation, revenue and number of employees. In line with the remuneration policy as adopted at the General Meeting of 28 May 2015, the Supervisory Board aims to set the remuneration levels slightly below market median. If, based on the annual benchmark, the remuneration level is not in line with the approved policy, appropriate measures will be considered.

Executive Board base salary

The Supervisory Board decided to increase the base salary of the Executive Board as per 1 January 2015, to reflect the greater responsibilities the Executive Board members assumed post IPO and in view of the market position of the remuneration of the Executive Board. In addition to this and taking into account the implementation of the Act on the Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen), the Supervisory Board decided to incorporate part of what was target variable remuneration in 2014 into base salary, partly in cash (80%) and partly in shares (20%). A discount was applied to the remuneration that moved from variable to fixed. The new Executive Board remuneration policy was approved by the General Meeting on 28 May 2015.

Remuneration Report – continued

Executive Board variable remuneration

The remuneration policy for the Executive Board combines the short and long-term variable components into one structure. This structure supports both long-term value creation and short-term company objectives. Variable remuneration is based on both financial and non-financial performance of the individual and the Company. Performance was assessed based on a number of targets regarding economic, environmental, customer satisfaction and social criteria. Estimated risks and capital adequacy were also taken into account when determining the award of variable remuneration. The Risk and Compliance function provided input in this respect. The emphasis on long-term performance indicators within the variable component of the compensation package is realised by means of deferral of 60% of the total variable remuneration. Furthermore, a yearly re-evaluation by the Supervisory Board will take place with the possibility to hold back (i.e. prevent from ever vesting) and/or claw back vested and paid variable remuneration. The Supervisory Board has the authority to reclaim any variable remuneration allocated to an Executive Board member based on inaccurate data and/or behaviour that led to significant harm to the company. In addition, the Supervisory Board has the authority to adjust variable remuneration in the event that the application of the predetermined performance criteria would result in an undesired outcome.

The maximum variable remuneration of the Executive Board members for performance year 2015 onwards has been capped at 20% of the base salary and the on target level of the annual variable remuneration has been set at 16% of the base salary. Additionally, the short-term component of variable remuneration (the so called Upfront Portion) is 40% of the total variable remuneration and is equally divided between an award in cash and an award in stock. The other 60% of the variable remuneration (the so called Deferred Portion) is also equally divided between an award in deferred cash and an award in deferred stock. Both the deferred cash and the deferred stock awards are subject to a tiered vesting on the first, second and third anniversary of the grant date (one third per annum). A retention period of five years starting from the date of award is applicable to all stock awards (both upfront and deferred), with the exception that part of the stock will be withheld at the relevant date of vesting to cover any income tax liability arising from the vested share award (withhold-to-cover). In addition to the general principles described above, more specific details on the 2015 variable remuneration of the Executive Board are provided below.

The performance targets of the Executive Board were set by the Supervisory Board of NN Group at the start of the 2015 performance year. In 2015 the financial and non-financial performance objectives included the following:

Performance objectives Executive Board[1]

2015 Financial performance objectives Executive Board	2015 Non-financial performance objectives Executive Board
Free cash flow at holding, operating result before tax ongoing business, expense reduction in the Netherlands, net operating ROE NN Group	Organisation & people, including focus on employee engagement and development of leadership and talent
	Strategically position NN Group for a sustainable future in the medium to long term, including: • Define and execute medium/ long-term Corporate Strategy • Maintain and further develop an excellent relationship and communication with shareholders • Compliant with S-II requirements for capital models and risk governance by 1 January 2016
	Customer & society measures, including improving the customer experience and suitability, improving results of the Net Promoter Score, brand awareness and the maintaining of a high level of professionalism and care for all relevant interactions with key stakeholders[2]

1 For the CEO the financial performance objectives have a weight of 45%; the non-financial performance objectives have a weight of 55%. For the CFO the financial performance objectives have a weight of 25%; the non-financial performance objectives have a weight of 75%.
2 The customer experience and suitability objectives have a weight of 20% of the total performance objectives of the Executive Board.

In 2015 there was no hold back applied to unvested deferred variable remuneration nor was claw back applied to paid or vested variable remuneration for any of the Executive Board members.

Executive Board pension arrangements

Due to the enactment of new Dutch pension legislation, the pension arrangements of the members of the Executive Board have been amended as per 1 January 2015. A defined contribution pension scheme was provided to the members of the Executive Board until 31 December 2014. New legislation limits pension contributions to standard tax deferred pension schemes. To meet the requirements of this new legislation, the Supervisory Board proposed that the members of the Executive Board join the same new pension arrangements as applicable to all staff of NN Group in the Netherlands. The General Meeting approved this amendment on 28 May 2015. The arrangements comprise a collective defined contribution (CDC) plan up to the new tax limit and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit.

The tables on the following page provide details on the amount of contribution that was paid by NN Group to the pension arrangement of the members of the Executive Board.

Remuneration Report – continued

Executive Board other emoluments

Members of the Executive Board were eligible for a range of other emoluments, such as health care insurance, lifecycle saving schemes and expat allowances (CFO only). Executive Board members were also able to obtain banking and insurance services from NN Group in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands. As per 31 December 2015, the members of the Executive Board have no loans outstanding with NN and no guarantees or advanced payments were granted to members of the Executive Board. The table below provide details on the amount of amount of emoluments that was paid by NN Group to the benefit of the Executive Board.

Remuneration of the Executive Board (in EUR 1,000 and gross)

	Lard Friese		Delfin Rueda	
	2015	**2014**	**2015**	**2014**
Base salary in cash	944	850	820	700
Base salary in shares	236	n.a.	205	n.a.
Total base salary	**1,180**	**850**	**1,025**	**700**
Variable remuneration	214	850	185	700
Total direct remuneration	**1,394**	**1,700**	**1,210**	**1,400**
Employer contribution to pension fund	25	180[1]	25	141[1]
Individual savings allowance	295	n.a.	253	n.a.
Other emoluments	42	31	155	141

1 Until 31 December 2014, the Executive Board participated in a defined contribution pension scheme. As per 1 January 2015, the pension arrangement of the Executive Board was changed after approval of the General Meeting. The new arrangement comprises a collective defined contribution (CDC) plan up to the new tax limit and a taxable cash individual savings allowance on pensionable fixed remuneration exceeding the tax limit. The pension arrangement of the Executive Board is the same as the pension arrangement applicable to all staff of NN Group in the Netherlands.

2015 Variable remuneration of the Executive Board (in EUR 1,000 and gross)

	Upfront cash paid	Deferred cash granted	Upfront shares granted	Deferred shares granted	Total
Lard Friese	42.8	64.2	42.8	64.2	214
Delfin Rueda	37.0	55.5	37.0	55.5	185

Long-term incentives awarded in previous years and in 2015 to the Executive Board

Members of the Executive Board receive share awards under NN Group's Aligned Remuneration Plan (ARP). The ARP only provides for cash-based and share-based awards; there are no share options and performance shares are no longer awarded under the ARP.

Until March 2014 (prior to the IPO) the Long-Term Sustainable Performance Plan (LSPP) was in place at ING Group which included awards of deferred cash, upfront shares, deferred shares and performance shares. Share-based LSPP awards which were outstanding to active NN Group employees on the IPO date (2 July 2014) were converted into similar awards over NN Group shares.

Until March 2010, ING Group also awarded share options under its (Dutch) Long-Term Equity Ownership (LEO) plans. The ING Group share options have a total term of ten years, comprising of a vesting period of three years, after which they can be exercised during the remaining seven years.

In 2015 no awards were made to the Executive Board members under the LSPP. The two tables below provide an overview of the holdings of the Executive Board members under the Dutch LEO and LSPP plans and the shares awarded and vested under the ARP.

Information on the ING Group share option awards outstanding and the movements during the financial year of share awards held by the members of the Executive Board as per 31 December 2015

	Award	Outstanding as at 1 January 2015	Exercised in 2015	Expired in 2015	Outstanding as at 31 December 2015	Exercise price in euros	Expiry
Lard Friese	2009	145,884	0	0	145,884	2.90	2019
	2010	161,136	0	0	161,136	7.35	2020

1 Mr Friese has options over ING Group shares pursuant to the ING Group Options LEO Plan. The option rights of Mr Friese have all fully vested and remain exercisable until 2019 and 2020 respectively.
2 Mr Rueda does not have any outstanding options over ING Group shares.

Remuneration Report – continued

Overview of number of NN shares awarded and vested for the Executive Board during 2015

For the Executive Board the following numbers of NN shares have been awarded and vested during 2015.

	Plan	Award date	Outstanding and unvested per 1 January 2015	Awarded during 2015	Vested during 2015	Outstanding and unvested per 31 December 2015	Vesting Price
Lard Friese	Deferred Shares Plan	16 May 2012	4,594		4,594	0	EUR 25.93
	Deferred Shares Plan	15 May 2015	3,963		1,981	1,982	EUR 25.99
	Deferred Shares Plan	14 May 2014	9,442		3,147	6,295	EUR 25.63
	Deferred Shares Plan	1 June 2015		10,320		10,320	
	Upfront Shares Plan	1 June 2015		6,880	6,880	0	EUR 25.55
Delfin Rueda	Deferred Shares Plan	8 Nov 2012	3,851		3,851	0	EUR 29.62
	Deferred Shares Plan	14 May 2014	7,403		2,467	4,936	EUR 25.63
	Deferred Shares Plan	1 June 2015		8,499		8,499	
	Upfront Shares Plan	1 June 2015		5,666	5,666	0	EUR 25.55

The table below shows an overview of the NN shares held by the members of the Executive Board as per 31 December 2015 and 31 December 2014.

	31 December 2015	31 December 2014
Lard Friese	17,019	3,750
Delfin Rueda	16,585	6,321

III. Remuneration of the Supervisory Board

Following the Settlement Date of the IPO (7 July 2014), the Supervisory Board was comprised of the following seven members:

- Mr Holsboer, Mr Hauser, Mr Schoen and Ms van Rooij
- Mr Hamers, Mr Flynn and Mr Nagel, ING Group nominees in accordance with an agreement made between NN Group and ING Group regarding their ongoing relationship after the IPO (the Relationship Agreement).

On 6 October 2015 Ms Vletter-van Dort was appointed to the Supervisory Board in an Extraordinary General Meeting and Mr Hamers resigned from the Supervisory Board on the same date. In that same meeting, Mr Jenkins and Mr Harryvan were appointed as members of the Supervisory Board, which appointments became effective on 2 February 2016, the date when ING Group's shareholding in NN Group fell below fifteen percent (15%). On 14 December 2015, Mr Flynn and Mr Nagel resigned from the Supervisory Board. More information on the composition of the Supervisory Board and its Committees can be found in the Report of the Supervisory Board, on pages 10–17 of this Financial Report.

The remuneration of the members of the Supervisory Board was set by the General Meeting of NN Group on 6 May 2014, and has been amended by the General Meeting as per 28 May 2015 in relation to the international attendance fee. The remuneration of the Supervisory Board consists of fixed annual fees for the Supervisory Board and the Committees based upon the number of meetings as stated in the protocol. Only if the actual number of meetings exceeds the number of meetings stated in the protocol by at least two meetings is an additional pro-rata fee paid.

NN Group does not grant variable remuneration, shares or options to the Supervisory Board. Supervisory Board members may obtain banking and insurance services from NN Group in the ordinary course of business and on terms that are customary in the sector. As per 31 December 2015, the members of the Supervisory Board have no loans outstanding with NN Group and no guarantees or advanced payments were granted to members of the Supervisory Board.

In line with market practice, a distinction is made between chair, vice-chair and other members. A fixed gross expense allowance of EUR 500 per Supervisory Board meeting is payable to cover all out-of-pocket expenses, and thus expenses for Supervisory Board meetings will not be reimbursed separately. Travel and lodging expenses in relation to meetings are paid by NN Group. An additional fee is payable for the additional time commitments when intercontinental or international travel is required for attending meetings. The remuneration levels for Supervisory Board members were reviewed in 2015 as a consequence of the increased level of responsibility and the increased frequency and intensity of Supervisory Board meetings. An increase of the international attendance fee from EUR 1,000 to EUR 2,500 was approved by the General Meeting on 28 May 2015.

Annual fees Supervisory Board NN Group (in EUR)

Function in Supervisory Board	Fixed annual fee	Expense allowance (per meeting)	Additional allowance for intercontinental/ international meeting attendance (per meeting)
Chair	75,000	500	3,500/2,500
Vice-chair	65,000	500	3,500/2,500
Member	45,000	500	3,500/2,500

Annual fees per function in committees of the Supervisory Board NN Group (in EUR)

Function in Supervisory Board	Fixed annual fee
Nomination and Corporate Governance Committee	
Chair	11,000
Member	7,000
Remuneration Committee	
Chair	11,000
Member	7,000
Risk Committee	
Chair	11,000
Member	7,000
Audit Committee	
Chair	15,000
Member	10,000

Remuneration Report – continued

Fees and allowances of Supervisory Board members (in EUR and gross)[1]

	Fees		Total fixed gross expense allowance		Total international attendance fees		VAT	
	2015	2014	2015	2014	2015	2014	2015	2014
J.H. (Jan) Holsboer (Chair)[2]	124,125	46,500	6,500	2,000	2,500	1,000	27,956	10,395
H.J (Heijo) Hauser	81,117	31,000	6,000	2,000	14,000	4,000	21,235	7,770
J.W. (Hans) Schoen	81,828	31,000	6,500	2,000	2,500	1,000	19,074	7,140
Y.C.M.T. (Yvonne) van Rooij[2]	82,875	31,500	6,500	2,000	2,500	1,000	19,294	7,245
H.M. (Hélène) Vletter-van Dort[2,3]	25,908	n.a.	2,500	n.a.	0	n.a.	5,966	n.a.
R.A.J.G. (Ralph) Hamers[3,4]	46,498	26,000	3,500	1,500	0	1,000	5,425	n.a.
P.G. (Patrick) Flynn[4,5]	82,592	37,000	4,000	1,500	0	1,000	11,205	n.a.
W.F. (Wilfred) Nagel[4,5]	62,861	33,000	5,500	1,500	0	n.a.	8,458	n.a.

1 This table shows the fixed fees, expense allowances and international attendance fees for the members of the Supervisory Board for 2015 and the second half of 2014. The fees, expense allowances and international attendance fees for the Supervisory Board members for the period from 1 January 2014 (respectively 1 March 2014) up to and including June 2014 were paid by ING Group. These amounts are not included in the table above.

2 Mr Holsboer and Ms Van Rooij were members of the Supervisory Board of ING Verzekeringen N.V. on 1 January 2014, which company ceased to exist as a result of a legal merger between NN Group N.V. and ING Verzekeringen N.V., effective as per 1 March 2014. As per this date, the Supervisory Board of NN Group N.V. was installed and Mr Holsboer and Ms van Rooij were appointed to the Supervisory Board of NN Group. The other members were appointed to the Supervisory Board of NN Group N.V. as per 7 July 2014 with the exception of Ms Vletter-van Dort, who was appointed as per 6 October 2015. The appointments of Mr Jenkins and Mr Harryvan became effective on 2 February 2016 and thus they are not included in this overview.

3 Ms Vletter-van Dort was appointed to the Supervisory Board as per 6 October 2015. Mr Hamers resigned as per the same date. Therefore, fees and allowances received by Ms Vletter-van Dort are shown as from 6 October 2015. Fees and allowances for Mr Hamers are shown up to 6 October 2015.

4 As a result of NN Group being included in the ING Group VAT fiscal unity up to 29 May 2015, VAT was not due to fees and allowances paid to ING Group with respect to the services of Mr Hamers, Mr Flynn and Mr Nagel up to 29 May 2015. The fees and allowances of these three members were paid directly to ING Group.

5 As per 14 December 2015, Mr Flynn and Mr Nagel resigned from their positions as members of the Supervisory Board. Therefore, the fees of Mr Flynn and Mr Nagel are shown until 14 December 2015.

Works councils

On 1 September 2015, the Group Works Council ING Insurance/IM was transformed to the Central Works Council NN Group (resulting from the IPO). The list below mentions all Central Works Council members as of 1 September 2015.

Central works council 2015

Works council NN Schade & Inkomen	M.L.R. (Michel) Vonk	Chair
Works council Support Functions NN Group	H.P. (Hennie) Post	Vice-chair
Works council NN Schade & Inkomen	H. (Hans) Askamp	Secretary
Works council Zicht Adviseurs	I.M. (Ingrid) van der Klugt	Vice-secretary
Works council NN Leven	R.R.A. (Robert) Coleridge	Member
Works council NN Leven	A. (Alexander) ter Haar	
	R.M.A. (Remco) van Vessem	
	O.H.R. (Oscar) Willems	
Works council NN Bank	L.H. (Leo) Baars	
	M. (Martijn) Bos	
	A. (Alfred) Botterman	
Works council NN Investment Partners	J.W. (Jaap) Engberts	
	A. (Aad) Kant	
	M. (Miriam) ter Weeme	
Works council Support Functions NN Group	R.B. (Reinoud) Rijpkema	
	C.J. (Kees) van der Vlugt	
Works council AZL	J.G.C.M. (Jan) Krutzen	
Works council Mandema & Partners	I.H.M. (Iris) Min-Bader	
Works council Zicht Adviseurs	R.F.C.M. (Rob) Stabèl	

European works council 2015

The Netherlands:	A. (Aad) Kant	Chair
	R.B. (Reinoud) Rijpkema	Vice-chair
	H. (Hennie) Post	
Belgium:	R. (René) De Meij	Secretary
Bulgaria:	N. (Nikolay) Mladenski	
Czech Republic:	V.K. (Vladimir) Koudel	
Greece:	N. (Nikolaos) Ploumis	
Hungary:	C. (Csilla) Dobos	
Luxembourg:	C. (Christophe) Guissart	
Poland:	A.(Agnieszka) Brodzik	
Slovakia:	M. (Marcel) Foríšek	
Spain:	A. (Angel) Otero Martinez	

Report of the Executive Board on internal control over financial reporting

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

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

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

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

The Executive Board of NN Group N.V. assessed the effectiveness of our internal control over financial reporting as of 31 December 2015. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') in Internal Control – Integrated Framework (2013 framework).

Based on the Executive Board's assessment, those criteria and with reference to the Best Practice provision II.1.5 of the Dutch Corporate Governance Code, the Executive Board concluded that risk management and control systems worked properly in the year under review and that it provides a reasonable assurance that the financial reporting does not contain any errors of material importance. The Executive Board declares that, to the best of its knowledge, NN Group's internal control over financial reporting is effective as of 31 December 2015.

The Hague, 22 March 2016

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Conformity statement

The Executive Board is required to prepare the annual accounts and the Report of the Executive Board of NN Group N.V. for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

The Executive Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Executive Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his knowledge:

- The NN Group N.V. 2015 annual accounts, as referred to in section 2:361 of the Dutch Civil Code including the relevant additional information as referred to in section 2:392 paragraph 1 of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of NN Group N.V. and the enterprises included in the consolidation taken as a whole.
- The NN Group N.V. 2015 Report of the Executive Board, as referred to in section 2:391 of the Dutch Civil Code, gives a fair review of the position at the balance sheet date, the development and performance of the business during the financial year 2015 of NN Group N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks NN Group N.V. is being confronted with.

The Hague, 22 March 2016

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Annual accounts contents

Consolidated annual accounts

Parent company annual accounts

Other information

Consolidated balance sheet

Amounts in millions of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December

	notes	2015	2014
Assets			
Cash and cash equivalents	2	7,436	7,530
Financial assets at fair value through profit or loss:	3		
– trading assets			628
– investments for risk of policyholders		35,154	41,222
– non-trading derivatives		4,656	7,207
– designated as at fair value through profit or loss		443	492
Available-for-sale investments	4	74,393	72,277
Loans	5	31,013	27,802
Reinsurance contracts	16	236	241
Associates and joint ventures	6	2,197	1,617
Real estate investments	7	1,564	1,104
Property and equipment	8	86	139
Intangible assets	9	351	357
Deferred acquisition costs	10	1,531	1,403
Other assets	11	3,092	3,462
Total assets		**162,152**	**165,481**
Equity			
Shareholders' equity (parent)		20,469	20,355
Minority interests		9	76
Undated subordinated notes		986	986
Total equity	12	**21,464**	**21,417**
Liabilities			
Subordinated debt	13	2,290	2,297
Debt securities issued	14	597	
Other borrowed funds	15	6,785	5,867
Insurance and investment contracts	16	115,984	119,237
Customer deposits and other funds on deposit	17	8,034	6,981
Financial liabilities at fair value through profit or loss:	18		
– non-trading derivatives		1,701	3,142
Other liabilities	19	5,297	6,540
Total liabilities		**140,688**	**144,064**
Total equity and liabilities		**162,152**	**165,481**

References relate to the notes starting on page 46. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account

Consolidated profit and loss account
For the year ended 31 December

	notes		2015		2014
Continuing operations					
Gross premium income	20		9,205		9,340
Investment income	21		4,058		3,510
Result on disposals of group companies			14		1
– gross fee and commission income		1,015		1,039	
– fee and commission expenses		-371		-339	
Net fee and commission income:	22		644		700
Valuation results on non-trading derivatives	23		-313		-528
Foreign currency results and net trading income	24		120		277
Share of result from associates and joint ventures	6		221		186
Other income			46		59
Total income			**13,995**		**13,545**
– gross underwriting expenditure		10,843		15,861	
– investment result for risk of policyholders		-1,099		-5,949	
– reinsurance recoveries		-81		-90	
Underwriting expenditure:	25		9,663		9,822
Intangible amortisation and other impairments	26		9		15
Staff expenses	27		1,172		1,736
Interest expenses	28		614		436
Other operating expenses	29		776		774
Total expenses			**12,234**		**12,783**
Result before tax from continuing operations			**1,761**		**762**
Taxation	34		166		135
Net result from continuing operations			**1,595**		**627**
Discontinued operations					
Net result from discontinued operations					10
Net result from disposal of discontinued operations					-26
Total net result from discontinued operations			**0**		**-16**
Net result from continuing and discontinued operations			**1,595**		**611**

Consolidated profit and loss account – continued

Net result

	2015	2014
Net result from continuing and discontinued operations attributable to:		
Shareholders of the parent	1,565	588
Minority interests	30	23
Net result from continuing and discontinued operations	**1,595**	**611**
Net result from continuing operations attributable to:		
Shareholders of the parent	1,565	604
Minority interests	30	23
Net result from continuing operations	**1,595**	**627**
Net result from discontinued operations attributable to:		
Shareholders of the parent		-16
Minority interests		
Net result from discontinued operations	**0**	**-16**

Earnings per ordinary share

amounts in euros	2015	2014
Earnings per ordinary share		
Basic earnings per ordinary share	4.51	1.63
Diluted earnings per ordinary share	4.49	1.62
Earnings per ordinary share from continuing operations		
Basic earnings per ordinary share from continuing operations	4.51	1.68
Diluted earnings per ordinary share from continuing operations	4.49	1.67
Earnings per ordinary share from discontinued operations		
Basic earnings per ordinary share from discontinued operations		-0.05
Diluted earnings per ordinary share from discontinued operations		-0.05

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December

	2015	2015	2014	2014
Net result from continuing and discontinued operations		1,595		611
– unrealised revaluations Available-for-sale investments and other	-708		6,258	
– realised gains/losses transferred to the profit and loss account	-345		1	
– changes in cash flow hedge reserve	-435		1,738	
– deferred interest credited to policyholders	644		-2,950	
– share of other comprehensive income of associates and joint ventures	9		43	
– exchange rate difference	188		117	
Items that may be reclassified subsequently to the profit and loss account:		-647		5,207
– remeasurement of the net defined benefit asset/liability	28		-121	
– unrealised revaluations property in own use	-3		1	
Items that will not be reclassified to the profit and loss account:		25		-120
Total other comprehensive income		**-622**		**5,087**
Total comprehensive income		**973**		**5,698**
Comprehensive income attributable to:				
Shareholders of the parent		943		5,675
Minority interests		30		23
Total comprehensive income		**973**		**5,698**

Consolidated statement of cash flows

Consolidated statement of cash flows
For the year ended 31 December

	2015	2014
Result before tax	1,761	745
Adjusted for:		
– depreciation	48	92
– deferred acquisition costs and value of business acquired	-45	-60
– underwriting expenditure (change in insurance liabilities)	-4,103	-2,708
– other	-203	-25
Taxation paid	-39	-89
Changes in:		
– trading assets	628	121
– non-trading derivatives	698	-654
– other financial assets at fair value through profit or loss	73	39
– loans	-3,837	-2,293
– other assets	340	349
– customer deposits and other funds on deposit	1,052	1,212
– financial liabilities at fair value through profit or loss – non-trading derivatives	-502	-494
– other liabilities	-2,676	-668
Net cash flow from operating activities	**-6,805**	**-4,433**
Investments and advances:		
– group companies	-31	
– associates and joint ventures	-90	-497
– available-for-sale investments	-8,574	-8,384
– real estate investments	-369	-397
– property and equipment	-41	-17
– investments for risk of policyholders	-5,668	-6,568
– other investments	-32	-6,090
Disposals and redemptions:		
– group companies	3	148
– associates and joint ventures	277	353
– available-for-sale investments	6,282	5,506
– real estate investments		10
– property and equipment	2	
– investments for risk of policyholders	13,877	12,785
– other investments	499	5,734
Net cash flow from investing activities	**6,135**	**2,583**
Proceeds from issuance of undated subordinated notes		986
Proceeds from issuance of subordinated debt and debt securities issued	597	985
Repayments of subordinated debt and debt securities issued		-1,571
Proceeds from other borrowed funds	13,100	9,539
Repayments of other borrowed funds	-12,194	-8,437
Capital contribution	57	850
Dividend paid	-271	-187
Purchase/sale of treasury shares	-597	
Coupon on undated subordinated notes	-45	
Net cash flow from financing activities	**647**	**2,165**
Net cash flow	**-23**	**315**

Consolidated statement of cash flows – continued

Cash and cash equivalents
For the year ended 31 December

	2015	2014
Cash and cash equivalents at beginning of the period	7,530	7,225
Net cash flow	-23	315
Effect of exchange rate changes on cash and cash equivalents	-71	-10
Cash and cash equivalents at end of the period	**7,436**	**7,530**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2015)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance as at 1 January 2015	**42**	**12,098**	**8,215**	**20,355**	**76**	**986**	**21,417**
Unrealised revaluations Available-for-sale investments and other			-708	-708			-708
Realised gains/losses transferred to the profit and loss account			-345	-345			-345
Changes in cash flow hedge reserve			-435	-435			-435
Deferred interest credited to policyholders			644	644			644
Share of other comprehensive income of associates and joint ventures			9	9			9
Exchange rate differences			188	188			188
Remeasurement of the net defined benefit asset/liability			28	28			28
Unrealised revaluations property in own use			-3	-3			-3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-622**	**-622**	**0**	**0**	**-622**
Net result for the period			1,565	1,565	30		1,595
Total comprehensive income	**0**	**0**	**943**	**943**	**30**	**0**	**973**
Changes in share capital	-2	-2	4	0			0
Capital contribution		57		57			57
Dividend			-251	-251	-20		-271
Purchase/sale of treasury shares			-597	-597			-597
Employee stock option and share plans			5	5			5
Coupon on undated subordinated notes			-34	-34			-34
Changes in composition of the group and other changes			-9	-9	-77		-86
Balance as at 31 December 2015	**40**	**12,153**	**8,276**	**20,469**	**9**	**986**	**21,464**

Consolidated statement of changes in equity – continued

Consolidated statement of changes in equity (2014)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance as at 1 January 2014	**0**	**11,605**	**2,457**	**14,062**	**68**	**0**	**14,130**
Unrealised revaluations Available-for-sale investments and other			6,258	6,258			6,258
Realised gains/losses transferred to the profit and loss account			1	1			1
Changes in cash flow hedge reserve			1,738	1,738			1,738
Deferred interest credited to policyholders			-2,950	-2,950			-2,950
Share of other comprehensive income of associates and joint ventures			43	43			43
Exchange rate differences			117	117			117
Remeasurement of the net defined benefit asset/liability			-121	-121			-121
Unrealised revaluations property in own use			1	1			1
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**5,087**	**5,087**	**0**	**0**	**5,087**
Net result for the period			588	588	23		611
Total comprehensive income	**0**	**0**	**5,675**	**5,675**	**23**	**0**	**5,698**
Issuance of undated subordinated notes				0		986	986
Changes in share capital	42	-42		0			0
Capital contribution		850		850			850
Dividend		-315		-315	-10		-325
Employee stock option and share plans			12	12			12
Changes in composition of the group and other changes			71	71	-5		66
Balance as at 31 December 2014	**42**	**12,098**	**8,215**	**20,355**	**76**	**986**	**21,417**

Notes to the Consolidated annual accounts

NN Group N.V. ('NN Group') is a public limited liability company (naamloze vennootschap) incorporated under Dutch law. NN Group has its official seat in Amsterdam, the Netherlands, and its office address in The Hague, the Netherlands. NN Group is recorded in the Commercial Register of Amsterdam, no. 52387534. The principal activities of NN Group are described in the section 'At a glance'.

1 Accounting policies

NN Group prepares its Consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS-EU') and Part 9 of Book 2 of the Dutch Civil Code. 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 insurance liabilities. 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.
- 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 in 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.

NN Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

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

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

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

Upcoming changes in IFRS-EU

In 2015, no changes to IFRS-EU became effective that had any impact on the annual accounts of NN Group. Upcoming changes in IFRS-EU effective after 2015 relevant to NN Group mainly relate to IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 is effective in 2018, if endorsed by the EU. However, if the recently published Exposure Draft 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' is finalised, NN Group could have the possibility to postpone implementation of IFRS 9 until the effective date of the expected insurance contracts standard or 1 January 2021, whichever is the earliest.

Classification and measurement

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

Impairment

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

Hedge accounting
The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting.

NN Group is currently assessing the impact of the new requirements. The implementation of IFRS 9, if and when endorsed by the EU, may have a significant impact on Shareholders' equity, Net result and/or Other comprehensive income.

Other
IFRS 15 'Revenue from Contracts with Customers'
This standard becomes effective as of 1 January 2018, subject to endorsement by the EU. IFRS 15 provides more specific guidance on recognising revenue other than insurance contracts and financial instruments. The implementation of IFRS 15, if and when endorsed by the EU, is not expected to have a significant impact on the Consolidated annual accounts of NN Group.

IFRS 16 'Leases'
IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to endorsement by the EU. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16, if and when endorsed by the EU, is not expected to have a significant impact on Shareholders' equity and Net result of NN Group.

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 contracts, deferred acquisition costs, the determination of the fair value of real estate and financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the Consolidated annual accounts and the information below.

Reference is made to Note 50 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Insurance contracts and Deferred acquisition costs (DAC)
The determination of insurance liabilities and DAC is an inherently uncertain process, involving assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, court decisions, changes in laws and other factors, and, in the life insurance business, assumptions concerning mortality and morbidity trends. Specifically, assumptions 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 and foreign currency exchange rates.

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

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

The adequacy of the insurance liabilities, net of DAC and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability with current best estimate actuarial assumptions and a risk margin. The use of different assumptions in this test could lead to a different outcome.

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

Reference is made to Note 36 'Fair value of non-financial assets' for more disclosure on fair value of real estate investments at the balance sheet date.

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

Notes to the Consolidated annual accounts – continued

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

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

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

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

Reference is made to Note 35 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments
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 six months are used as triggers. Upon impairment of Available-for-sale debt and equity securities the full difference between the (acquisition) cost and fair value is removed from equity and recognised in Net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event after the impairment. Impairments on equity securities cannot be reversed.

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 of the reporting unit to which the goodwill was allocated 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. Other intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

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

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

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

Notes to the Consolidated annual accounts – continued

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

A list of principal subsidiaries is included in Note 33 'Principal subsidiaries and geographical information'.

Foreign currency translation

Functional and presentation currency

Items included in the annual accounts 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 annual accounts 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. Exchange rate differences on non-monetary items measured at fair value through Other comprehensive income (equity) are included in the revaluation reserve in equity.

Exchange rate differences in the profit and loss account are generally included in Foreign currency results and Net trading income. Exchange rate differences relating to the disposal of Available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies, on disposal 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.

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)
- All resulting exchange rate differences are recognised in a separate component of equity in the Currency translation reserve.

On consolidation, exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to Shareholders' 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.

Recognition and derecognition of financial instruments

Financial assets and liabilities are generally (de)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.

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.

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

Notes to the Consolidated annual accounts – continued

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

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques, based on market conditions existing at each balance sheet date.

Reference is made to Note 35 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when NN 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 financial assets
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. In the specific case of equity investments classified as Available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally 25% and six months are used as triggers.

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

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

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

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

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

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 43 '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 is explained in Note 50 'Risk management'.

Notes to the Consolidated annual accounts – continued

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

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

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

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN 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.

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

Employee benefits
Defined benefit pension 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.

Defined contribution pension 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 future payments is available.

Other post-employment obligations
Some NN Group companies provide post-employment 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.

Reorganisation provisions
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. 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.

Share-based payments
Share-based payment expenses are recognised as staff expenses over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. For cash-settled share-based payment transactions, a liability is recognised at fair value; this fair value is remeasured at every balance sheet date.

Interest income and expenses
Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, NN Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

Notes to the Consolidated annual accounts – continued

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the 'clean fair value' are included in Valuation results on non-trading derivatives.

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 when conducting asset management activities. The assets and income arising thereon are excluded from these annual accounts, as they are not assets or income of NN Group. Fees received acting as trustee and in other fiduciary capacities are recognised as income.

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

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

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

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 for separately as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

Parent company profit and loss account
The parent company profit and loss account is drawn up in accordance with Article 402, Book 2 of the Dutch Civil Code.

Accounting policies for specific items
Financial assets and liabilities at fair value through profit or loss (Notes 3 and 18)
A financial asset or liability is classified as at fair value through profit or loss if it is acquired principally for the purpose of selling in the short-term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

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

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

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

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
- If a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (unless the embedded derivative meets the definition of an insurance contract).

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN 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.

Notes to the Consolidated annual accounts – continued

At the inception of the hedge 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. NN Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

Non-trading derivatives that do not qualify for hedge accounting

Derivatives that are used by NN 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 profit and loss account.

Available-for-sale investments (Note 4)

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

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

Loans (Note 5)

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

Associates and joint ventures (Note 6)

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

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

Notes to the Consolidated annual accounts – continued

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

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

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

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

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

Associates include interests in real estate funds and private equity funds. The underlying assets of both the real estate and the private equity funds are measured at fair value. The fair value of underlying real estate in real estate funds is determined as set out below for Real estate investments. The fair value of underlying private equity investments in private equity funds is generally based on a forward-looking market approach. This approach uses a combination of company financials and quoted market multiples. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and by reference to market valuations for similar entities quoted in an active market. Valuations of private equity investments are mainly based on an 'adjusted multiple of earnings' methodology on the following basis:

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

Real estate investments (Note 7)

Real estate investments are measured at fair value. Changes in the carrying value resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sales proceeds and carrying value is recognised in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Market transactions and disposals made by NN Group are monitored as part of the validation procedures to test the valuations. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years, but more frequently in practice.

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

Subsequent expenditures are recognised as part of the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to NN Group and the cost of an item can be measured reliably. All other repairs and maintenance costs are recognised immediately in the profit and loss account.

Property and equipment (Note 8)

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying value are recognised in Other comprehensive income (equity).

Notes to the Consolidated annual accounts – continued

Decreases in the carrying value that offset previous increases of the same asset are charged against Other comprehensive income (equity); all other decreases are recognised in the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20–50 years). Depreciation is calculated on a straight-line basis. On disposal, the related revaluation reserve in equity is transferred within equity to Retained earnings.

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

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

Intangible assets (Note 9)

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. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Goodwill, being the 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 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 (equity) 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. 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 Shareholders' equity.

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 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, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the 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.

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'.

Notes to the Consolidated annual accounts – continued

Other intangible assets
Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years.

Deferred acquisition costs (Note 10)
Deferred acquisition costs (DAC) represent costs of acquiring insurance and investment contracts that are deferred and amortised. The deferred costs, all of which vary with (and are primarily related to) the production of new and renewal business, consist principally of commissions, certain underwriting and contract issuance expenses, and certain agency expenses.

For 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 profits. Amortisation is adjusted when estimates of current or future profits, to be realised from a group of products, are revised.

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

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

Subordinated debt, Debt securities issued and Other borrowed funds (Notes 13, 14 and 15)
Subordinated debt and Other borrowed funds are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If NN Group purchases its own debt, it is derecognised from the balance sheet, and the difference between the carrying value of the liability and the consideration paid is recognised in the profit and loss account.

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

Insurance and investment contracts, reinsurance contracts (Note 16)
Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 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 applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its 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 policies under IFRS-EU.

In addition, for certain specific products or components thereof, NN Group applies the option in IFRS 4 to measure (components of) insurance liabilities 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. Insurance liabilities 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 liabilities are recognised in the profit and loss account.

Life insurance liabilities
The life insurance liabilities is generally calculated on the basis of a prudent prospective actuarial method. 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 liabilities on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions for insurance liabilities on traditional life insurance contracts, including traditional whole -life and term -life insurance liabilities, 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 liabilities for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders.

Notes to the Consolidated annual accounts – continued

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

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

Liabilities for unearned premiums and unexpired insurance risks

The liabilities are 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 liability. Further liabilities are formed to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims liabilities

Claims liabilities are calculated either on a case-by-case basis or by approximation on the basis of experience. Liabilities have also been recognised for claims incurred but not reported (IBNR) and for future claims handling expenses. The adequacy of the Claims liabilities is evaluated each year using standard actuarial techniques. In addition, IBNR liabilities 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 tax) is recognised in the revaluation reserve in Other comprehensive income (equity).

Liabilities for life insurance for risk of policyholders

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

Reinsurance contracts

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

Adequacy test

The adequacy of the insurance liabilities, net of DAC and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability with current best estimate actuarial assumptions and a risk margin. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums.

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, 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.

Investment contracts

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

Gross premium income (Note 20)

Premiums from insurance policies are recognised as income when due from the policyholder. Receipts under investment contracts are not recognised as gross premium income; instead deposit accounting is applied.

Notes to the Consolidated annual accounts – continued

Net fee and commission income (Note 22)
Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Earnings per ordinary share (Note 30)
Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding, own shares held by group companies are deducted from the total number of ordinary shares in issue.

Changes in the number of ordinary shares outstanding without a corresponding change in resources are taken into account, including if these changes occurred after the reporting date but before the annual accounts are authorised for issue.

Diluted earnings per share data are computed as if all convertible instruments outstanding at the year-end were exercised at the beginning of the period. It is also assumed that NN Group uses the assumed proceeds received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Segments and Principal subsidiaries and geographical information (Notes 32 and 33)
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 analysis is based on the location of the business unit from which the transactions are originated.

2 Cash and cash equivalents

Cash and cash equivalents

	2015	2014
Cash and bank balances	3,077	1,830
Money market funds	2,944	1,830
Short-term deposits	1,415	3,870
Cash and cash equivalents	**7,436**	**7,530**

NN Group held EUR 474 million (2014: EUR 321 million) at central banks.

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2015	2014
Trading assets		628
Investments for risk of policyholders	35,154	41,222
Non-trading derivatives	4,656	7,207
Designated as at fair value through profit or loss	443	492
Financial assets at fair value through profit or loss	**40,253**	**49,549**

In 2014, Trading assets included private equity investments at fair value through profit or loss. Reference is made to Note 45 'Companies and businesses acquired and divested'.

Investments for risk of policyholders

	2015	2014
Equity securities	32,740	38,853
Debt securities	1,369	1,537
Loans and receivables	1,045	832
Investments for risk of policyholders	**35,154**	**41,222**

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

Notes to the Consolidated annual accounts – continued

Non-trading derivatives

	2015	2014
Derivatives used in:		
– fair value hedges	11	48
– cash flow hedges	2,756	3,620
Other non-trading derivatives	1,889	3,539
Non-trading derivatives	**4,656**	**7,207**

Other non-trading derivatives includes derivatives for which no hedge accounting is applied.

Designated as at fair value through profit or loss

	2015	2014
Equity securities	239	486
Debt securities	204	6
Designated as at fair value through profit or loss	**443**	**492**

4 Available-for-sale investments

Available-for-sale investments

	2015	2014
Equity securities:		
– shares in NN Group managed investment funds	2,094	1,920
– shares in third-party managed investment funds	1,539	1,439
– other	3,207	2,927
Equity securities	**6,840**	**6,286**
Debt securities	67,553	65,991
Available-for-sale investments	**74,393**	**72,277**

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2015	2014	2015	2014	2015	2014
Available-for-sale investments – Opening balance	6,286	5,620	65,991	55,394	72,277	61,014
Additions	1,453	1,426	7,121	6,773	8,574	8,199
Amortisation			-140	-107	-140	-107
Transfers and reclassifications		-170			0	-170
Changes in unrealised revaluations	605	132	-1,602	8,496	-997	8,628
Impairments	-170	-120			-170	-120
Reversal of impairments				3	0	3
Disposals and redemptions	-1,272	-615	-5,010	-4,764	-6,282	-5,379
Changes in the composition of the group and other changes	-102	-8		-15	-102	-23
Exchange rate differences	40	21	1,193	211	1,233	232
Available-for-sale investments – Closing balance	**6,840**	**6,286**	**67,553**	**65,991**	**74,393**	**72,277**

Reference is made to Note 21 'Investment income' for details per segment on impairments.

In 2014, Transfers and reclassifications includes transfers of investments in real estate funds from Available-for-sale investments to Associates and joint ventures and the transfer of the investment in Sul América S.A. from Associates and joint ventures to Available-for-sale investments, both following changes in ownership interests.

Notes to the Consolidated annual accounts – continued

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

Total exposure to debt securities

	2015	2014
Available-for-sale investments	67,553	65,991
Loans	2,620	4,714
Available-for-sale investments and Loans	**70,173**	**70,705**
Investments for risk of policyholders	1,369	1,537
Designated as at fair value through profit or loss	204	6
Financial assets at fair value through profit or loss	**1,573**	**1,543**
Debt securities	**71,746**	**72,248**

NN Group's total exposure to debt securities included in Available-for-sale investments and Loans of EUR 70,173 million (2014: EUR 70,705 million) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2015	2014	2015	2014	2015	2014
Government bonds	53,936	52,344			53,936	52,344
Covered bonds	450	609			450	609
Corporate bonds	8,817	7,824			8,817	7,824
Financial institution bonds	3,602	4,367			3,602	4,367
Bond portfolio (excluding ABS)	**66,805**	**65,144**	**0**	**0**	**66,805**	**65,144**
US RMBS	192	261			192	261
Non-US RMBS	385	360	1,866	2,874	2,251	3,234
CDO/CLO	36	38	22	29	58	67
Other ABS	132	175	732	1,498	864	1,673
CMBS	3	13		313	3	326
ABS portfolio	**748**	**847**	**2,620**	**4,714**	**3,368**	**5,561**
Debt securities – Available-for-sale investments and Loans	**67,553**	**65,991**	**2,620**	**4,714**	**70,173**	**70,705**

Available-for-sale equity securities

	2015	2014
Listed	4,447	3,650
Unlisted	2,393	2,636
Available-for-sale equity securities	**6,840**	**6,286**

Notes to the Consolidated annual accounts – continued

Reclassifications to Loans (2009)

As per reclassification date	Q2 2009
Fair value	6,135
Range of effective interest rates	1.4%-24.8%
Expected recoverable cash flows	7,118
Unrealised fair value losses in Shareholders' equity (before tax)	-896
Recognised fair value gains/losses in Shareholders' equity (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	173
Recognised fair value gains/losses in Shareholders' equity (before tax) in the year prior to reclassification	-971
Impairments (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	nil
Impairment (before tax) in the year prior to reclassification	nil

Years after reclassification	2015	2014	2013	2012	2011	2010	2009
Carrying value	533	809	1,098	1,694	3,057	4,465	5,550
Fair value	676	984	1,108	1,667	2,883	4,594	5,871
Unrealised fair value gains/losses in Shareholders' equity (before tax)	-203	-213	-111	-186	-307	-491	-734
Effect on Shareholders' equity (before tax) if reclassification had not been made	143	175	10	-27	-174	129	321
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (mainly interest income)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	121
Effect on result (before tax) for the year (interest income and sales results)	1	-2	-10	-47	90	89	n.a.
Impairments (before tax)	nil	nil	nil	nil	nil	nil	nil
Provisions for credit losses (before tax)	nil	nil	nil	nil	nil	nil	nil

Reclassifications out of Available-for-sale investments to Loans 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. 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 above provides information on this reclassification made in the second quarter of 2009. Information is provided for this reclassification as at the date of reclassification and as at the end of the subsequent reporting periods. This information is disclosed under IFRS-EU for as long as the reclassified assets continue to be recognised in the balance sheet.

5 Loans

Loans

	2015	2014
Loans secured by mortgages	22,398	18,175
Unsecured loans	4,438	3,706
Asset-backed securities	2,620	4,714
Deposits	432	928
Policy loans	236	193
Other	976	161
Loans-before Loan loss provisions	**31,100**	**27,877**
Loan loss provisions	-87	-75
Loans	**31,013**	**27,802**

For the change in Loans-Other, reference is made to Note 16 'Insurance and investment contracts, reinsurance contracts- Changes in Investment contracts'.

Notes to the Consolidated annual accounts – continued

Changes in Loans secured by mortgages

	2015	2014
Loans secured by mortgages – Opening balance	18,175	15,375
Additions/origination	5,776	3,831
Redemption	-1,394	-1,120
Amortisation	-42	-12
Transfers to/from Other assets/liabilities	-90	
Impairments and write-offs	-13	-7
Fair value changes recognised on hedged items	-14	108
Loans secured by mortgages – Closing balance	**22,398**	**18,175**

NN Group has sold mortgage loans to securitisation entities that, in turn, issued notes to investors that are collateralised by the purchased assets. These mortgage loans continue to be recognised on NN Group's balance sheet as NN Group retained all or substantially all of the risks and rewards of the mortgage loans. Reference is made to Note 46 'Structured entities'.

Changes in Loan loss provisions

	2015	2014
Loan loss provisions – Opening balance	75	89
Write-offs	-14	-26
Increase in loan loss provisions	39	13
Changes in the composition of the group and other changes	-13	
Exchange rate differences		-1
Loan loss provisions – Closing balance	**87**	**75**

6 Associates and joint ventures

Associates and joint ventures (2015)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Master Fund I C.V.	27%	293	1,335	236	222	47
Parcom Investment Fund III B.V.	100%	216	233	17	65	1
CBRE UK Property Fund LP	23%	201	892		133	28
Parcom Investment Fund II B.V.	100%	185	205	20	98	1
CBRE Retail Property Fund Iberica LP	31%	184	1,305	712	227	42
Parcom Buy Out Fund IV B.V.	100%	145	163	18	161	5
CBRE Property Fund Central Europe LP	25%	116	885	419	71	
Allee Center Kft	50%	103	224	17	27	8
CBRE European Industrial Fund LP	27%	101	571	191	65	23
Fiumaranuova s.r.l.	50%	87	212	38	23	8
Parquest Capital B FPCI	40%	62	176	18	5	7
SNC Le Havre Lafayette	50%	58	139	24	21	4
DPE Deutschland II B GmbH & Co KG	34%	54	160		13	1
CBRE Property Fund Central and Eastern Europe FGR	21%	52	619	365	43	47
The Capital (London) Fund	20%	51	255		30	
Other		289				
Associates and joint ventures		**2,197**				

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

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

Other represents a large number of associates and joint ventures with an individual balance sheet value of less than EUR 50 million. The amounts presented in the table above could differ from the individual annual accounts of the associates due to the fact that the individual amounts have been brought in line with NN Group's accounting principles.

Notes to the Consolidated annual accounts – continued

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

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

Associates and joint ventures (2014)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Master Fund I C.V.	28%	255	1,203	298	112	50
CBRE UK Property Fund LP	27%	188	786	75	122	18
CBRE Retail Property Fund Iberica LP	31%	151	1,095	599	215	52
CBRE Property Fund Central Europe LP	25%	107	888	459	67	23
Allee Center Kft	50%	103	225	19	16	6
Fiumaranuova s.r.l.	50%	91	203	21	11	4
CBRE Retail Property Fund France Belgium C.V.	15%	85	1,289	723	147	69
CBRE European Industrial Fund LP	22%	73	504	175	53	22
Dolphin Capital B FPCI	40%	68	175		5	3
CBRE French Residential Fund C.V.	42%	59	212	56	-15	9
CBRE Property Fund Central and Eastern Europe FGR	21%	52	657	406	49	51
Other		385				
Associates and joint ventures		**1,617**				

Changes in Associates and joint ventures

	2015	2014
Associates and joint ventures – Opening balance	1,617	1,071
Additions	90	497
Transfers to/from Available-for-sale investments		170
Share in changes in equity (Revaluations)	9	48
Share of result	221	186
Dividends received	-49	-40
Disposals	-277	-353
Changes in the composition of the group and other changes	572	-8
Exchange rate differences	14	46
Associates and joint ventures – Closing balance	**2,197**	**1,617**

Changes in the composition of the group and other changes in 2015 mainly relate to the investments in private equity funds recognised as associates following the sale of Parcom Capital Management. Reference is made to Note 45 'Companies and businesses acquired and divested'.

Disposals in 2015 mainly relate to the sale of investments in real estate funds.

In 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 was recognised in 'Share of result from Associates and joint ventures'. The remaining interest was transferred to ING Group by way of a dividend in kind. Together with a dividend paid to ING Group for the proceeds of the 11.3% divestment, this resulted in a dividend of EUR 315 million in 2014.

Notes to the Consolidated annual accounts – continued

7 Real estate investments

Changes in Real estate investments

	2015	2014
Real estate investments – Opening balance	1,104	721
Additions	369	397
Transfers to/from Property in own use	63	3
Transfers to/from Other assets	3	
Fair value gains/losses	25	-7
Disposals		-10
Real estate investments – Closing balance	**1,564**	**1,104**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2015 is EUR 110 million (2014: EUR 71 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments for the year ended 31 December 2015 is EUR 31 million (2014: EUR 20 million).

Real estate investments by year of most recent appraisal

	2015	2014
Most recent appraisal in current year	100%	100%
	100%	**100%**

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

Real estate exposure

	2015	2014
Real estate investments	1,564	1,104
Available-for-sale investments	1,054	1,040
Associates and joint ventures	1,457	1,475
Property and equipment – Property in own use	42	88
Other assets – Property obtained from foreclosures	4	4
Real estate exposure	**4,121**	**3,711**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 5,080 million (2014: EUR 4,908 million). Reference is made to Note 50 'Risk management'.

8 Property and equipment

Property and equipment

	2015	2014
Property in own use	42	88
Equipment	44	51
Property and equipment	**86**	**139**

Notes to the Consolidated annual accounts – continued

Changes in Property in own use

	2015	2014
Property in own use – Opening balance	88	100
Additions	25	2
Transfers to/from Real estate investments	-63	-3
Revaluations	-4	-9
Impairments	-2	
Depreciation	-2	-2
Property in own use – Closing balance	**42**	**88**
Gross carrying value	81	173
Accumulated depreciation, revaluations and impairments	-39	-85
Net carrying value	**42**	**88**
Revaluation surplus – Opening balance	10	9
Revaluation in year	-1	1
Released in year	-3	
Revaluation surplus – Closing balance	**6**	**10**

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2015	2014	2015	2014	2015	2014
Equipment – Opening balance	19	25	32	39	51	64
Additions	8	9	8	6	16	15
Disposals	-1		-1		-2	0
Depreciation	-10	-15	-11	-13	-21	-28
Equipment – Closing balance	**16**	**19**	**28**	**32**	**44**	**51**
Gross carrying value	83	76	116	109	199	185
Accumulated depreciation	-67	-57	-88	-77	-155	-134
Net carrying value	**16**	**19**	**28**	**32**	**44**	**51**

9 Intangible assets

Changes in Intangible assets (2015)

	Value of business acquired	Goodwill	Software	Other	Total
Intangible assets – Opening balance	17	265	51	24	357
Additions			17	3	20
Capitalised expenses			12	-1	11
Amortisation and unlocking	-3		-19	-7	-29
Disposals			-2		-2
Exchange rate differences		-5		-1	-6
Intangible assets – Closing balance	**14**	**260**	**59**	**18**	**351**
Gross carrying value	41	381	714	118	1,254
Accumulated amortisation	-27		-606	-54	-687
Accumulated impairments		-121	-49	-46	-216
Net carrying value	**14**	**260**	**59**	**18**	**351**

Notes to the Consolidated annual accounts – continued

Changes in Intangible assets (2014)

	Value of business acquired	Goodwill	Software	Other	Total
Intangible assets – Opening balance	20	264	76	32	392
Additions			18		18
Capitalised expenses			21		21
Amortisation and unlocking	-3		-55	-6	-64
Impairments			-8		-8
Disposals			-2		-2
Changes in the composition of the group and other changes			1	-2	-1
Exchange rate differences		1			1
Intangible assets – Closing balance	**17**	**265**	**51**	**24**	**357**
Gross carrying value	41	386	687	117	1,231
Accumulated amortisation	-24		-587	-47	-658
Accumulated impairments		-121	-49	-46	-216
Net carrying value	**17**	**265**	**51**	**24**	**357**

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' respectively. Amortisation of VOBA is included in 'Underwriting expenditure'.

Goodwill by reporting unit

	2015	2014
Insurance Europe	97	102
Asset Management	163	163
Goodwill	**260**	**265**

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. 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 book 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.

The identification of impairment is an inherently uncertain process involving various assumptions and factors. Estimates and assumptions (including unobservable Level 3 inputs) are based on management's judgement and other information available.

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 derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. In addition, for life insurance business, the market value surplus is used. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU.

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.

In both 2015 and 2014, the first step as described above indicates that there is a significant excess of recoverable amount over book value for both reporting units to which goodwill is allocated. As a result, a second step was not necessary and there is no significant exposure of goodwill impairment for sensitivities in the underlying assumptions.

Notes to the Consolidated annual accounts – continued

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2015	2014	2015	2014	2015	2014
Deferred acquisition costs – Opening balance	1,361	1,316	42	37	1,403	1,353
Capitalised	360	371	224	230	584	601
Amortisation and unlocking	-315	-317	-221	-225	-536	-542
Changes in the composition of the group and other changes		-1			0	-1
Exchange rate differences	80	-8			80	-8
Deferred acquisition costs – Closing balance	**1,486**	**1,361**	**45**	**42**	**1,531**	**1,403**

11 Other assets

Other assets

	2015	2014
Insurance and reinsurance receivables	391	531
Deferred tax assets	44	30
Property obtained from foreclosures	4	4
Income tax receivable	58	56
Accrued interest and rents	1,620	1,894
Other accrued assets	542	573
Other	433	374
Other assets	**3,092**	**3,462**

Disclosures in respect of Deferred tax assets are provided in Note 34 'Taxation'.

Insurance and reinsurance receivables

	2015	2014
Receivables on account of direct insurance from:		
– policyholders	240	389
– intermediaries	40	50
Reinsurance receivables	111	92
Insurance and reinsurance receivables	**391**	**531**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 33 million as at 31 December 2015 (2014: EUR 43 million). The receivable is presented net of this allowance.

Notes to the Consolidated annual accounts – continued

12 Equity

Total equity

	2015	2014
Share capital	40	42
Share premium	12,153	12,098
Revaluation reserve	8,321	9,103
Currency translation reserve	-24	-198
Net defined benefit asset/liability remeasurement reserve	-90	-118
Other reserves	69	-572
Shareholders' equity (parent)	**20,469**	**20,355**
Minority interests	9	76
Undated subordinated notes	986	986
Total equity	**21,464**	**21,417**

Changes in Equity (2015)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – Opening balance	42	12,098	8,215	20,355
Net result for the period			1,565	1,565
Total amount recognised directly in equity (Other comprehensive income)			-622	-622
Changes in share capital	-2	-2	4	0
Capital contribution		57		57
Dividend			-251	-251
Purchase/sale of treasury shares			-597	-597
Employee stock option and share plans			5	5
Coupon on undated subordinated notes			-34	-34
Changes in the composition of the group and other changes			-9	-9
Equity – Closing balance	**40**	**12,153**	**8,276**	**20,469**

Changes in Equity (2014)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – Opening balance		11,605	2,457	14,062
Net result for the period			588	588
Total amount recognised directly in equity (Other comprehensive income)			5,087	5,087
Changes in share capital	42	-42		0
Capital contribution		850		850
Dividend		-315		-315
Employee stock option and share plans			12	12
Changes in the composition of the group and other changes			71	71
Equity – Closing balance	**42**	**12,098**	**8,215**	**20,355**

Shareholders' equity (parent)

NN Group's ordinary shares started trading on 2 July 2014 on Euronext Amsterdam under the symbol 'NN' after its Initial Public Offering (IPO).

Share capital

	Ordinary shares			
	Shares (in number)		Amounts in millions of euros	
	2015	2014	2015	2014
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	366,447,128	349,982,846	44	42
Issued share capital	**333,552,872**	**350,017,154**	**40**	**42**

Notes to the Consolidated annual accounts – continued

Ordinary shares
The authorised ordinary share capital consists of 700,000,000 ordinary shares with a par value of EUR 0.12 per share. The issued and fully paid ordinary share capital consists of 333,552,872 ordinary shares with a par value of EUR 0.12 per share.

Capital contributions
On 21 May 2015, NN Group issued 2.2 million ordinary shares at a price of EUR 26.16 per share to ING Groep N.V. The proceeds of EUR 57 million were used by NN Group to increase the common equity Tier 1 capital of NN Bank by the same amount. In addition, ING Bank provided a facility to NN Bank under which NN Bank has the unconditional right to receive additional Tier 1 capital up to an amount of EUR 63 million until 31 December 2018 at prevailing market terms. With these transactions, ING Group fulfilled its commitments to the EC pertaining to the capitalisation of NN Bank.

Purchase/sale of treasury shares
In order to neutralise the dilutive effect of the stock dividend for 2014 and interim stock dividend for 2015, NN Group repurchased from ING Groep N.V. on 30 June 2015 2.1 million ordinary shares at the volume weighted average share price of EUR 24.95 per share for an aggregate amount of EUR 53 million and on 7 September 2015 1.7 million ordinary shares at the volume weighted average share price of EUR 26.78 per share for an aggregate amount of EUR 45 million. The repurchased shares are held by NN Group and the amount is deducted from Other reserves ('Purchase/sale of treasury shares').

In the context of ING Group's reduction of its interest in NN Group, NN Group repurchased on 17 February 2015 8.3 million ordinary shares from ING Groep N.V. at a price of EUR 24.00 per share for an aggregate amount of EUR 200 million, on 26 May 2015 5.9 million ordinary shares at a price of EUR 25.46 per share for an aggregate amount of EUR 150 million and on 30 September 2015 6.0 million ordinary shares at a price of EUR 25.00 per share for an aggregate amount of EUR 150 million. The repurchased shares are held by NN Group and the amount is deducted from Other reserves ('Purchase/sale of treasury shares').

During 2015, the ownership of ING Groep N.V. in NN Group reduced from 68.1% to 25.8% of shares outstanding (net of treasury shares) at 31 December 2015. As a result, NN Group is no longer consolidated by ING Groep N.V. and the restrictions from the EC decision of November 2012 no longer apply. In 2016, ING Groep N.V. further reduced its remaining stake in NN Group from 25.8% to 14.1% as at 22 March 2016.

Coupon paid on undated subordinated notes
The undated subordinated notes have an optional annual coupon payment on 15 July. Following the payment of dividend and repurchase of ordinary shares in the first half of 2015, the payment of the first annual coupon on 15 July 2015 became mandatory. As a result, EUR 34 million (net of tax) was deducted from equity.

Cancellation of shares
At the Annual General Meeting of 28 May 2015, authorisation was obtained to cancel treasury shares up to a maximum of 20% of the issued share capital of NN Group. In September and December 2015, 15,339,119 respectively 7,674,470 NN Group treasury shares were cancelled. These treasury shares were acquired as part of the repurchase from ING Group.

As at 31 December 2015, 956,295 treasury shares have been retained for purposes of employee share plan settlements.

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

In addition, NN Group's ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. NN Group is legally required to create a non-distributable reserve insofar profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions. Such restrictions may, among others, be of a similar nature as the restrictions which apply to NN Group.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Group's subsidiaries, associates and joint ventures are as follows:

Notes to the Consolidated annual accounts – continued

Distributable reserves based on the Dutch Civil Code

	2015	2015	2014	2014
Total shareholders' equity		20,469		20,355
– share capital	40		42	
– revaluation reserve	8,321		9,103	
– currency translation reserve	n.a.		n.a.	
– net defined benefit asset/liability remeasurement reserve	n.a.		n.a.	
– other non-distributable reserves	339		221	
Total non-distributable part of shareholders' equity		**8,700**		**9,366**
Distributable reserves based on the Dutch Civil Code		**11,769**		**10,989**

The Dutch supervisory rules and regulations stemming from the Dutch Financial Supervision Act (Wet op het financieel toezicht) provide a second restriction on the possibility to distribute dividends. Total freely distributable reserves is the minimum of Freely distributable capital on the basis of solvency requirements and Freely distributable capital on the basis of capital protection.

Freely distributable reserves

	2015	2015	2014	2014
Solvency requirement under the Financial Supervision Act	4,663		4,686	
Reserves available for financial supervision purposes	14,914		14,078	
Total freely distributable reserves on the basis of solvency requirements		10,251		9,392
Total freely distributable reserves on the basis of the Dutch Civil Code		11,769		10,989
Total freely distributable reserves (lowest of the above values)		**10,251**		**9,392**

Reference is made to Note 51 'Capital and liquidity management' for more information on solvency requirements.

Other restrictions

There are other restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to NN Group as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the group companies operate. Reference is made to Note 51 'Capital and liquidity management' for the minimum capital requirements.

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to NN Group there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group's subsidiaries, associates and joint ventures. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by NN Group, no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, NN Group is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of NN Group's Articles of Association whereby the ordinary shares are written down. Pursuant to the Dutch Civil Code, capital may only be repaid if none of NN Group's creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Preference shares

As at 31 December 2015, none of the preference shares have been issued. The authorised preference share capital is 700,000,000.

Warrants

In 2014, NN Group issued warrants to ING Group that will be exercisable for 34,965,000 ordinary shares of NN Group. The initial exercise price of the warrants is equal to 200% of the EUR 20.00 offer price at the time of the IPO. The warrants are exercisable from 7 July 2015 and expire on 7 July 2024. ING Group has committed to not exercise its warrants before 7 July 2017. Furthermore, the warrants are not subject to transfer restrictions, however, the warrant holders have no voting rights or rights to receive dividends.

These warrants are potentially dilutive instruments for purpose of the earnings per share calculations from 7 July 2014 until they are converted into ordinary shares. The issue of these warrants had no impact on Shareholders' equity.

Notes to the Consolidated annual accounts – continued

Changes in Share premium

	2015	2014
Share premium – Opening balance	12,098	11,605
Change in share capital	-2	-42
Capital contribution	57	850
Dividend		-315
Share premium – Closing balance	**12,153**	**12,098**

In 2015, ING Groep N.V. contributed EUR 57 million of share premium (2014: EUR 850 million).

Changes in Revaluation reserve (2015)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – Opening balance	7	4,632	4,464	9,103
Unrealised revaluations	-3	-643		-646
Realised gains/losses transferred to the profit and loss account		-345		-345
Changes in cash flow hedge reserve			-435	-435
Deferred interest credited to policyholders		644		644
Revaluation reserve – Closing balance	**4**	**4,288**	**4,029**	**8,321**

Changes in Revaluation reserve (2014)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – Opening balance	6	1,217	2,726	3,949
Unrealised revaluations	1	6,364		6,365
Realised gains/losses transferred to the profit and loss account		1		1
Changes in cash flow hedge reserve			1,738	1,738
Deferred interest credited to policyholders		-2,950		-2,950
Revaluation reserve – Closing balance	**7**	**4,632**	**4,464**	**9,103**

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

Changes in Currency translation reserve

	2015	2014
Currency translation reserve – Opening balance	-198	-252
Unrealised revaluations after taxation	-14	-63
Exchange rate differences	188	117
Currency translation reserve – Closing balance	**-24**	**-198**

Unrealised revaluations relate to changes in the value of hedging instruments that are designated as net investment hedges.

Notes to the Consolidated annual accounts – continued

Changes in Other reserves (2015)

	Retained earnings	Share of associates reserve	Total
Other reserves – Opening balance	-794	222	-572
Net result for the period	1,565		1,565
Transfers to/from Share of associates reserve	-91	91	0
Dividend	-251		-251
Purchase/sale of treasury shares	-597		-597
Employee stock option and share plans	5		5
Coupon on subordinated notes	-34		-34
Changes in the composition of the group and other changes	-47		-47
Other reserves – Closing balance	**-244**	**313**	**69**

Changes in Other reserves (2014)

	Retained earnings	Share of associates reserve	Total
Other reserves – Opening balance	-656	458	-198
Net result for the period	588		588
Transfers to/from Share of associates reserve	236	-236	0
Transfer to/from Net defined benefit asset/liability remeasurement reserve	-1,045		-1,045
Employee stock option and share plans	12		12
Changes in the composition of the group and other changes	71		71
Other reserves – Closing balance	**-794**	**222**	**-572**

Dividends

	2015	2014
Dividend distributed from Share premium:		
Dividend paid in cash		176
Dividend in kind (transfer of Sul América S.A.)		139
Dividend distributed from Other reserves:		
Dividend paid in cash (interim 2015)	111	
Dividend paid in cash (final 2014)	140	
Stock dividend:		
Stock dividend (interim 2015)	45	
Stock dividend (final 2014)	53	
Total dividend	**349**	**315**

Final dividend 2014
On 28 May 2015, the General Meeting of Shareholders approved the proposed dividend for 2014 of EUR 0.57 per ordinary share, which reflects a total amount of EUR 193 million. This dividend was paid on 30 June 2015 either in cash or in ordinary shares at the election of the shareholders. As a result, an amount of EUR 140 million was distributed out of Other reserves (cash dividend) and 2.1 million ordinary shares, with a par value of EUR 0.12 per share and a volume weighted average share price of EUR 24.95 were issued (stock dividend).

Interim dividend 2015
In September 2015 NN Group paid a 2015 interim dividend of EUR 0.46 per ordinary share, which reflects a total amount of EUR 156 million. The 2015 interim dividend was paid on 7 September 2015 either in cash or in ordinary shares at the election of the shareholders. As a result, an amount of EUR 111 million was distributed out of Other reserves (cash dividend) and 1.7 million ordinary shares, with a par value of EUR 0.12 per share and a volume weighted average share price of EUR 26.78 were issued (stock dividend).

To neutralise the dilutive effect of the newly issued shares for the stock dividend on earnings per ordinary share, NN Group has repurchased ordinary shares from ING Group equal to the number of shares that NN Group has issued as stock dividend at a price similar to the price used to calculate the stock fraction for the stock dividend.

Notes to the Consolidated annual accounts – continued

Proposed dividend 2015
Reference is made to the Proposed appropriation of result in the 'Other information' section.

Undated subordinated notes

In July 2014, NN Group N.V. issued Fixed to Floating Rate Undated subordinated notes with a par value of EUR 1 billion. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.50% per annum for the first 11.5 years and will be floating thereafter. As these notes are undated and include optional deferral of interest at the discretion of NN Group, these are classified under IFRS-EU as equity. Coupon payments are distributed out of equity if and when paid or contractually due. The discount to the par value and certain issue costs were deducted from equity at issue, resulting in a balance sheet value equal to the net proceeds of EUR 986 million.

13 Subordinated debt

Subordinated debt

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance Sheet Value	
				2015	2014	2015	2014
4.625%	2014	8-Apr-44	8-Apr-24	1,000	1,000	986	985
Variable	2007	Perpetual	15-Jan-16	506	506	506	506
Variable	2005	Perpetual	8-Mar-16	169	169	169	171
Variable	2005	Perpetual	15-Jan-16	148	148	148	148
6.375%	2002	7-May-27	7-May-17	476	476	481	487
Subordinated debt						**2,290**	**2,297**

The above subordinated debt instruments have been issued to raise hybrid capital. Under IFRS-EU these debt instruments are classified as liabilities. EUR 823 million (2014: EUR 825 million) has been issued to ING Group.

All Subordinated debt is euro denominated.

In 2014 NN Group repaid Subordinated debt to ING Group with a notional amount of EUR 1,571 million.

14 Debt securities issued

In March 2015, NN Group issued EUR 600 million senior unsecured notes with a fixed rate coupon of 1% per annum and a maturity of seven years. The notes are issued under the Debt Issuance Programme, for which the base prospectus was issued on 2 March 2015. The net proceeds of this transaction of EUR 597 million were primarily used to repay a EUR 400 million senior loan to ING Group.

15 Other borrowed funds

Other borrowed funds

	2015	2014
Credit institutions	3,787	4,752
Other	2,998	1,115
Other borrowed funds	**6,785**	**5,867**

For the change in Other borrowed funds-Other, reference is made to Note 16 'Insurance and investment contracts, reinsurance contracts- Changes in Investment contracts'.

Other borrowed funds includes collateral received on derivatives and the funding of the consolidated securitisation programmes as disclosed in Note 46 'Structured entities'.

Notes to the Consolidated annual accounts – continued

16 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2015	2014	2015	2014	2015	2014
Non-participating life policy liabilities	19,155	17,464	19	27	19,174	17,491
Participating life policy liabilities	49,705	47,661	95	87	49,800	47,748
Liabilities for (deferred) profit sharing and rebates	6,853	7,712			6,853	7,712
Life insurance liabilities excluding liabilities for risk of policyholders	**75,713**	**72,837**	**114**	**114**	**75,827**	**72,951**
Liabilities for life insurance for risk of policyholders	33,580	39,671	47	46	33,627	39,717
Life insurance liabilities	**109,293**	**112,508**	**161**	**160**	**109,454**	**112,668**
Liabilities for unearned premiums and unexpired risks	**263**	**264**	**2**	**3**	**265**	**267**
Reported claims liabilities	2,539	2,583	69	77	2,608	2,660
Claims incurred but not reported (IBNR)	632	612	4	1	636	613
Claims liabilities	**3,171**	**3,195**	**73**	**78**	**3,244**	**3,273**
Insurance liabilities	**112,727**	**115,967**	**236**	**241**	**112,963**	**116,208**
Investment contracts for risk of company	1,436	1,460			1,436	1,460
Investment contracts for risk of policyholders	1,585	1,569			1,585	1,569
Investment contracts liabilities	**3,021**	**3,029**	**0**	**0**	**3,021**	**3,029**
Insurance and investment contracts, reinsurance contracts	**115,748**	**118,996**	**236**	**241**	**115,984**	**119,237**

The 'Liabilities for insurance and investment contracts' 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.

The deferred profit sharing amount on unrealised revaluation is included in the Liabilities for (deferred) profit sharing and rebates and amounts to EUR 6,560 million as at 31 December 2015 (2014: EUR 7,431 million).

Changes in Life insurance liabilities (2015)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – Opening balance	72,837	39,671	160	112,668
Change in deferred profit sharing liabilities	-873			-873
Current year liabilities	4,685	1,118	11	5,814
Prior years liabilities:				
– benefit payments to policyholders	-6,437	-7,548	-12	-13,997
– interest accrual and changes in fair value of liabilities	2,778		1	2,779
– valuation changes for risk of policyholders		1,090		1,090
– effect of changes in discount rate assumptions	-22			-22
– effect of changes in other assumptions	14	-19	-2	-7
Changes in the composition of the group and other changes	1,705	-2,042	1	-336
Exchange rate differences	1,026	1,310	2	2,338
Life insurance liabilities – Closing balance	**75,713**	**33,580**	**161**	**109,454**

1 Net of reinsurance and liabilities for risk of policyholders.
2 Net of reinsurance.

Notes to the Consolidated annual accounts – continued

Changes in Life insurance liabilities (2014)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – Opening balance	66,930	38,038	171	105,139
Change in deferred profit sharing liabilities	3,946			3,946
Current year liabilities	3,941	1,279	10	5,230
Prior years liabilities:				
– benefit payments to policyholders	-6,435	-4,292	-17	-10,744
– interest accrual and changes in fair value of liabilities	2,500		1	2,501
– valuation changes for risk of policyholders		5,864		5,864
– effect of changes in other assumptions	2	-4	-2	-4
Changes in the composition of the group and other changes	2,049	-1,124	-3	922
Exchange rate differences	-96	-90		-186
Life insurance liabilities – Closing balance	**72,837**	**39,671**	**160**	**112,668**

1 Net of reinsurance and liabilities for risk of policyholders.
2 Net of reinsurance.

Where discounting is used in the calculation of life insurance liabilities, the rate is within the range of 1.4% to 3.6% (2014: 2.0% to 3.7%).

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 if and when they are deemed uncollectable.

As at 31 December 2015, the total Reinsurance exposure including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounts to EUR 347 million (2014: EUR 333 million).

Changes in the composition of the group and other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts, and the transfer of certain insurance contracts. Furthermore, in 2014, Changes in the composition of the group and other changes includes EUR 1.3 billion related to a change in presentation of certain insurance liabilities for risk of policyholders that were previously presented net under Investments for risk of policyholders.

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2015	2014	2015	2014	2015	2014
Liabilities for unearned premiums and unexpired risks – Opening balance	264	266	3	3	267	269
Premiums written	1,590	1,632	33	37	1,623	1,669
Premiums earned during the year	-1,592	-1,630	-33	-37	-1,625	-1,667
Changes in the composition of the group and other changes	1	-4	-1		0	-4
Liabilities for unearned premiums and unexpired risks – Closing balance	**263**	**264**	**2**	**3**	**265**	**267**

Notes to the Consolidated annual accounts – continued

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2015	2014	2015	2014	2015	2014
Claims liabilities – Opening balance	3,195	3,238	78	78	3,273	3,316
Additions:						
– for the current year	1,109	1,111	2	4	1,111	1,115
– for prior years	-89	-88	-1	4	-90	-84
– interest accrual of liabilities	65	66			65	66
Additions	**1,085**	**1,089**	**1**	**8**	**1,086**	**1,097**
Claim settlements and claim settlement costs:						
– for the current year	-457	-455		-1	-457	-456
– for prior years	-649	-673	-6	-8	-655	-681
Claim settlements and claim settlement cost	**-1,106**	**-1,128**	**-6**	**-9**	**-1,112**	**-1,137**
Changes in the composition of the group and other changes	-6	-8		1	-6	-7
Exchange rate differences	3	4			3	4
Claims liabilities – Closing balance	**3,171**	**3,195**	**73**	**78**	**3,244**	**3,273**

Where discounting is used in the calculation of the Claims liabilities the rate is within the range of 2.0% to 4.0% (2014: 2.3% to 4.0%).

Changes in Investment contracts

	2015	2014
Investment contracts – Opening balance	3,029	3,046
Current year liabilities	192	201
Prior years liabilities:		
– payments to contract holders	-320	-360
– interest accrual		1
– valuation changes investments	40	89
Changes in the composition of the group and other changes		-31
Exchange rate differences	80	83
Investment contracts – Closing balance	**3,021**	**3,029**

In 2015, NN Group entered into a retrocession agreement for an existing investment contract. The liability for this contract and the comparative amount for 2014, was reclassified from 'Insurance liabilities' to 'Investment contracts liabilities'. As a result of the retrocession agreement, a retrocession asset has been recognised in Loans – Other. Under the terms of the agreement, certain Available-for-sale investments have been transferred to the counterparty of the retrocession agreement but are not derecognised from the balance sheet; therefore a related liability is recognised in Other borrowed funds.

Notes to the Consolidated annual accounts – continued

Gross claims development table

									Accident year		
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of cumulative claims:											
At the end of accident year	1,105	1,023	1,075	1,164	1,165	1,201	1,232	1,217	1,168	1,177	
1 year later	1,060	925	1,059	1,176	1,195	1,244	1,182	1,230	1,191		
2 years later	981	861	1,031	1,118	1,159	1,191	1,164	1,203			
3 years later	967	863	1,031	1,134	1,157	1,187	1,147				
4 years later	975	843	1,024	1,118	1,145	1,167					
5 years later	961	837	1,041	1,111	1,134						
6 years later	965	849	1,033	1,101							
7 years later	970	839	1,023								
8 years later	962	831									
9 years later	948										
Estimate of cumulative claims	**948**	**831**	**1,023**	**1,101**	**1,134**	**1,167**	**1,147**	**1,203**	**1,191**	**1,177**	**10,922**
Cumulative payments	-867	-713	-875	-919	-933	-889	-835	-807	-697	-456	-7,991
	81	**118**	**148**	**182**	**201**	**278**	**312**	**396**	**494**	**721**	**2,931**
Effect of discounting	-10	-15	-19	-22	-28	-39	-47	-48	-48	-41	-317
Liabilities recognised	**71**	**103**	**129**	**160**	**173**	**239**	**265**	**348**	**446**	**680**	**2,614**
Liabilities relating to accident years prior to 2006											630
Gross claims											**3,244**

17 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2015	2014
Saving accounts	8,034	6,981
Customer deposits and other funds on deposit	**8,034**	**6,981**

18 Financial liabilities at fair value through profit or loss

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

Non-trading derivatives

	2015	2014
Derivatives used in:		
– fair value hedges	107	116
– cash flow hedges	115	109
– hedges of net investments in foreign operations	3	23
Other non-trading derivatives	1,476	2,894
Non-trading derivatives	**1,701**	**3,142**

Other non-trading derivatives includes derivatives for which no hedge accounting is applied.

Notes to the Consolidated annual accounts – continued

19 Other liabilities

Other liabilities

	2015	2014
Deferred tax liabilities	2,101	2,274
Income tax payable	11	9
Net defined benefit liability	96	124
Other post-employment benefits	36	39
Other staff-related liabilities	140	150
Other taxation and social security contributions	144	173
Deposits from reinsurers	102	107
Accrued interest	519	740
Costs payable	187	176
Amounts payable to policyholders	564	983
Reorganisation provisions	67	94
Other provisions	56	104
Amounts to be settled	813	986
Other	461	581
Other liabilities	**5,297**	**6,540**

Net defined benefit asset/liability

	2015	2014
Fair value of plan assets	9	9
Defined benefit obligation	105	133
Net defined benefit asset/liability recognised in the balance sheet (Funded status)	**96**	**124**
Presented as:		
– Other liabilities	96	124
Net defined benefit asset/liability	**96**	**124**

Disclosures in respect of Deferred tax liabilities are provided in Note 34 'Taxation'.

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.

Changes in Reorganisation provisions

	2015	2014
Reorganisation provisions – Opening balance	94	155
Additions	49	29
Releases	-4	-3
Charges	-72	-85
Changes in the composition of the group and other changes		-2
Reorganisation provisions – Closing balance	**67**	**94**

In 2012 and 2013 reorganisation provisions were 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 undertook actions to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. In 2015 EUR 49 million was added to the reorganisation provision, due to additional initiatives announced during 2015 (2014: EUR 27 million).

During 2015 EUR 72 million was charged to the provision for the cost of workforce reductions (2014: EUR 85 million). The remaining provision at the balance sheet date represents the best estimate of the expected future redundancy costs and is expected to be sufficient to cover the remaining costs of the restructuring programme.

Notes to the Consolidated annual accounts – continued

Changes in Other provisions

	Litigation		Other		Total	
	2015	2014	2015	2014	2015	2014
Other provisions – Opening balance	39	3	65	65	104	68
Additions		37	6	20	6	57
Releases	-3		-7	-6	-10	-6
Charges	-30		-16	-17	-46	-17
Changes in the composition of the group and other changes				2	0	2
Exchange rate differences		-1	2	1	2	0
Other provisions – Closing balance	**6**	**39**	**50**	**65**	**56**	**104**

20 Gross premium income

Gross premium income

	2015	2014
Gross premium income from life insurance policies	7,582	7,671
Gross premium income from non-life insurance policies	1,623	1,669
Gross premium income	**9,205**	**9,340**

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

Premiums written – net of reinsurance

	Life		Non-life		Total	
	2015	2014	2015	2014	2015	2014
Direct gross premiums written	7,566	7,658	1,615	1,645	9,181	9,303
Reinsurance assumed gross premiums written	16	13	8	24	24	37
Gross premiums written	**7,582**	**7,671**	**1,623**	**1,669**	**9,205**	**9,340**
Reinsurance ceded	-123	-106	-33	-37	-156	-143
Premiums written – net of reinsurance	**7,459**	**7,565**	**1,590**	**1,632**	**9,049**	**9,197**

Non-life premiums earned – net of reinsurance

	2015	2014
Direct gross premiums earned	1,617	1,643
Reinsurance assumed gross premiums earned	8	24
Gross premiums earned	**1,625**	**1,667**
Reinsurance ceded	-33	-37
Non-life premiums earned – net of reinsurance	**1,592**	**1,630**

Notes to the Consolidated annual accounts – continued

21 Investment income

Investment income

	2015	2014
Interest income from investments in debt securities	1,737	1,776
Interest income from loans:		
– unsecured loans	132	175
– mortgage loans	918	784
– policy loans	8	7
– other	100	21
Interest income from investments in debt securities and loans	**2,895**	**2,763**
Realised gains/losses on disposal of Available-for-sale debt securities	171	43
Reversal of impairments of Available-for-sale debt securities		3
Realised gains/losses and impairments of Available-for-sale debt securities	**171**	**46**
Realised gains/losses on disposal of Available-for-sale equity securities	376	61
Impairments of Available-for-sale equity securities	-170	-120
Realised gains/losses and impairments of Available-for-sale equity securities	**206**	**-59**
Interest income on non-trading derivatives	516	557
Increase in loan loss provisions	-39	-18
Income from real estate investments	79	51
Dividend income	205	177
Change in fair value of real estate investments	25	-7
Investment income	**4,058**	**3,510**

Impairments and Reversals of impairments on investments by segment

	Impairments		Reversals of impairments	
	2015	2014	2015	2014
Netherlands Life	-145	-105		
Netherlands Non-life	-3	-7		
Insurance Europe	-8	-7		3
Japan Life	-11			
Other	-3	-1		
Impairments and Reversals of impairments on investments	**-170**	**-120**	**0**	**3**

22 Net fee and commission income

Net fee and commission income

	2015	2014
Asset management fees	774	751
Insurance brokerage and advisory fees	86	89
Other	155	199
Gross fee and commission income	**1,015**	**1,039**
Trailer fees	257	229
Asset management fees	30	26
Commission expenses and other	84	84
Fee and commission expenses	**371**	**339**
Net fee and commission income	**644**	**700**

Notes to the Consolidated annual accounts – continued

23 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2015	2014
Change in fair value of derivatives relating to:		
– fair value hedges	11	-112
– cash flow hedges (ineffective portion)	-25	-36
– other non-trading derivatives	-303	-502
Net result on non-trading derivatives	**-317**	**-650**
Change in fair value of assets and liabilities (hedged items)	-6	115
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	10	7
Valuation results on non-trading derivatives	**-313**	**-528**

Included in Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as share prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in Underwriting expenditure. Reference is made to Note 25 'Underwriting expenditure'.

Valuation results on non-trading derivatives are reflected in the Consolidated statement of cash flows in the section 'Result before tax', in the line item 'Adjusted for: other'.

Reference is made to Note 37 'Derivatives and hedge accounting'.

24 Foreign currency results and net trading income

Foreign currency results and net trading income

	2015	2014
Foreign currency results	-88	149
Net trading income	208	128
Foreign currency results and net trading income	**120**	**277**

Net trading income mainly relates to private equity investments at fair value through profit or loss.

25 Underwriting expenditure

Underwriting expenditure

	2015	2014
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholders	9,744	9,912
– effect of investment result for risk of policyholders	1,099	5,949
Gross underwriting expenditure	**10,843**	**15,861**
Investment result for risk of policyholders	-1,099	-5,949
Reinsurance recoveries	-81	-90
Underwriting expenditure	**9,663**	**9,822**

The investment income and valuation results regarding investments for risk of policyholders is EUR 1,099 million (2014: EUR 5,949 million). This amount is recognised in 'Underwriting expenditure'. As a result it is shown together with the equal amount of related change in insurance liabilities for risk of policyholders.

Notes to the Consolidated annual accounts – continued

Underwriting expenditure by class

	2015	2014
Expenditure from life underwriting:		
– reinsurance and retrocession premiums	123	106
– gross benefits	13,102	10,843
– reinsurance recoveries	-59	-69
– change in life insurance liabilities	-5,464	-3,048
– costs of acquiring insurance business	466	469
– other underwriting expenditure	82	86
– profit sharing and rebates	40	51
Expenditure from life underwriting	**8,290**	**8,438**
Expenditure from non-life underwriting:		
– reinsurance and retrocession premiums	33	37
– gross claims	1,123	1,139
– reinsurance recoveries	-22	-21
– changes in the liabilities for unearned premiums	-2	2
– changes in claims liabilities	-16	-38
– costs of acquiring insurance business	256	263
Expenditure from non-life underwriting	**1,372**	**1,382**
Expenditure from investment contracts:		
– costs of acquiring investment contracts	1	1
– other changes in investment contract liabilities		1
Expenditure from investment contracts	**1**	**2**
Underwriting expenditure	**9,663**	**9,822**

Profit sharing and rebates

	2015	2014
Distributions on account of interest or underwriting results	-40	-12
Bonuses added to policies	80	63
Profit sharing and rebates	**40**	**51**

The total Costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 723 million (2014: EUR 733 million). This includes amortisation and unlocking of DAC of EUR 536 million (2014: EUR 542 million) and the net amount of commissions paid of EUR 770 million (2014: EUR 791 million) and commissions capitalised in DAC of EUR 584 million (2014: EUR 601 million).

The total amount of commission paid and commission payable amounted to EUR 846 million (2014: EUR 866 million). This includes the commissions recognised in Costs of acquiring insurance business of EUR 770 million (2014: EUR 791 million) referred to above and commissions recognised in Other underwriting expenditure of EUR 76 million (2014: EUR 75 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 16 million (2014: EUR 14 million).

As set out in the section 'Accounting policies for specific items – Insurance and investment contracts, reinsurance contracts', NN Group applies, for certain specific products or components thereof, the option in IFRS 4 to measure (components of) the liabilities for 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 liabilities.

This impact is largely offset by the impact of related hedging derivatives. As disclosed in Note 23 '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.

Notes to the Consolidated annual accounts – continued

26 Intangible amortisation and other impairments

Intangible amortisation and other impairments

	2015	2014
Property and equipment	2	
Other intangible assets		8
Other impairments and reversals of other impairments	**2**	**8**
Amortisation of other intangible assets	7	7
Intangible amortisation and other impairments	**9**	**15**

Impairment on debt securities, equity securities and loans are presented under Investment income.

27 Staff expenses

Staff expenses

	2015	2014
Fixed salaries	640	632
Variable salaries	71	82
Pension costs	101	636
Social security costs	94	100
Share-based compensation arrangements	19	13
External staff costs	202	213
Education	13	13
Other staff costs	32	47
Staff expenses	**1,172**	**1,736**

Pension costs

	2015	2014
Current service cost	4	5
Past service cost	-1	-9
Net interest cost	-1	2
Effect of curtailment or settlement		539
Other		3
Defined benefit plans	**2**	**540**
Defined contribution plans	99	96
Pension costs	**101**	**636**

Defined benefit plans

In February 2014, ING Group reached an agreement with the various stakeholders to transfer all future funding and indexation obligations under the defined benefit plan in the Netherlands to the Dutch ING DB Pension Fund. The agreement made the Dutch ING DB Pension Fund financially independent. In 2014, EUR 1,045 million was recognised in Transfer to Other reserves (pension settlement), and a charge of EUR 541 million was recognised in profit or loss related to the Dutch defined benefit pension plan settlement.

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.

Number of employees

Reference is made to Note 33 'Principal subsidiaries and geographical information' for information on the number of employees.

Remuneration of Executive Board, Management Board and Supervisory Board

Reference is made to Note 48 'Key management personnel compensation'.

Notes to the Consolidated annual accounts – continued

Share plans

NN Group has granted shares to a number of senior executives (members of the Management Board, general managers and other officers nominated by the Management Board) and to a considerable number of employees. The purpose of the share schemes, is to attract, retain and motivate senior executives and staff.

Share awards comprise Upfront Shares, Deferred Shares and (until March 2014) Performance Shares. The entitlement to the Deferred Shares and Performance Shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. A retention period applies from the moment of grant respectively vesting of these awards (5 years for Management Board, and 1 year for Identified Staff).

Per the date of settlement of the IPO in 2014, all outstanding share awards on ING Groep N.V. shares, NN Group's ultimate parent company in 2014, were converted into awards on NN Group N.V. shares (for employees in active employment with NN Group on the IPO date). The outstanding option awards on ING Groep N.V. shares which are all fully vested, remained unchanged.

Share awards

Changes in Share awards outstanding

	Share awards (in number)		Weighted average grant date fair value (in EUR)	
	2015	2014	2015	2014
Share awards outstanding – Opening balance	1,611,655		14.41	
Converted from share awards on ING Group shares		1,489,780		14.29
Granted	594,191	18,802	26.00	23.70
Performance effect	103,989	138,332	16.43	14.29
Vested	-1,088,956	-18,661	15.00	14.29
Forfeited	-56,171	-16,598	14.96	14.29
Share awards outstanding – Closing balance	**1,164,708**	**1,611,655**	**19.54**	**14.41**

In 2015, 68,218 share awards on NN Group shares (2014: 12,993) were granted to the members of the Executive and Management Board. To senior management and other employees 525,973 share awards on NN Group shares (2014: 5,809) were granted.

As at 31 December 2015 the share awards on NN Group shares consist of 1,151,364 (2014: 1,595,832) share awards relating to equity-settled share-based payment arrangements and 13,344 (2014: 15,823) share awards relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is allocated over the vesting period of the share awards as an expense under staff expenses.

As at 31 December 2015 total unrecognised compensation costs related to share awards amount to EUR 9 million (2014: EUR 10 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2014: 1.7 years).

In 2014, 81,267 share awards on ING Group shares were granted to the members of the Executive and Management Board and 1,472,039 share awards on ING Group shares were granted to senior management and other employees. In July 2014 all outstanding share awards on ING Group shares were converted into share awards on NN Group shares. The conversion was performed at an exchange factor such that the fair value of the outstanding share awards remained unchanged. As a result, 2,826,907 share awards on ING Group shares (with a weighted average grant date fair value of EUR 7.53) were converted into 1,489,780 share awards on NN Group shares (with a weighted average grant date fair value of EUR 14.29).

Sharesave Plan

In August 2014, NN Group introduced a 'Sharesave' plan which is open to all employees. Under the plan, from August 2014 eligible employees can save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. At the end of the three-year period, employees will receive their savings together with a gross gain, if at the end of the three-year period the NN Group share price exceeds the initial trading price of NN Group shares on the Amsterdam Stock Exchange on 7 July 2014. The gross gain is limited to a 100% increase in the share price and is paid in cash. If an employee leaves the plan before the end of the 3-year plan period, or if the share price at the end of the plan period is equal to or less than the initial trading price, the amount contributed by the employee is repaid (without addition of any gross gain).

At the start, 3,526 employees participated in the Sharesave plan. The number of participants is 3,186 as at 31 December 2015.

The plan is accounted for as a cash-settled share-based payment plan. The liability in the balance sheet as at 31 December 2015 is EUR 11 million (2014: EUR 4 million), of which EUR 8 million (2014: EUR 2 million) was contributed by the participating employees. The liability is included in Other staff-related liabilities in Other liabilities. Reference is made to Note 19 'Other liabilities'.

Notes to the Consolidated annual accounts – continued

28 Interest expenses

Interest expenses

	2015	2014
Interest expenses on non-trading derivatives	281	290
Other interest expenses	333	146
Interest expenses	**614**	**436**

In 2015, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 2,895 million and EUR 333 million respectively (2014: EUR 2,763 million and EUR 146 million respectively).

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

Total net interest income

	2015	2014
Investment income	3,411	3,302
Interest expenses on non-trading derivatives	-281	-290
Other interest expenses	-333	-146
Total net interest income	**2,797**	**2,866**

29 Other operating expenses

Other operating expenses

	2015	2014
Depreciation of property and equipment	23	30
Amortisation of software	19	56
Computer costs	204	238
Office expenses	114	130
Travel and accommodation expenses	16	16
Advertising and public relations	112	55
External advisory fees	111	109
Addition/(releases) of provisions for reorganisation and relocations	45	26
Other	132	114
Other operating expenses	**776**	**774**

Other operating expenses includes lease and sublease payments for office buildings of EUR 52 million (2014: EUR 60 million) and lease and sublease payments for cars and other equipment of EUR 10 million (2014: EUR 11 million). These expenses are in respect of operating leases in which NN Group is the lessee.

For Addition/releases of provision for reorganisation and relocations reference is made to the disclosure on the reorganisation provisions in Note 19 'Other liabilities'.

Fees of auditors

	2015	2014
Audit fees	15	12
Audit related fees	1	2
Tax fees		
All other fees		
Fees of auditors	**16**	**14**

Fees as disclosed above relate to the network of the NN Group's auditors and are the amounts related to the respective years, i.e. on an accrual basis.

Notes to the Consolidated annual accounts – continued

30 Earnings per ordinary share

Earnings per ordinary share shows earnings per share amounts for profit or loss attributable to shareholders of the parent. Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding, own shares held by group companies are deducted from the total number of ordinary shares in issue.

Changes in the number of ordinary shares outstanding without a corresponding change in resources are taken into account, including if these changes occurred after the reporting date but before the annual accounts are authorised for issue.

Earnings per ordinary share

	Amount (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Net result from continuing and discontinued operations	1,565	588				
Coupon on undated subordinated notes	-34	-17				
Basic earnings per ordinary share	**1,531**	**571**	**339.6**	**350.0**	**4.51**	**1.63**
Dilutive instruments:						
Warrants			0.0	0.0		
Share plans			1.2	1.6		
			1.2	**1.6**		
Diluted earnings per ordinary share	**1,531**	**571**	**340.8**	**351.6**	**4.49**	**1.62**

Diluted earnings per share is calculated as if the share plans and warrants outstanding at the end of the period had been exercised at the beginning of the period and assuming that the cash received from exercised share plans and warrants was used to buy own shares against the average market price during the period. The net increase in the number of shares resulting from exercising share plans and warrants is added to the average number of shares used for the calculation of diluted earnings per share.

Earnings per ordinary share from continuing operations

	Amount (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Basic earnings per ordinary share	1,531	571				
Less: Net result from discontinued operations		-16				
Basic earnings per ordinary share from continuing operations	**1,531**	**587**	**339.6**	**350.0**	**4.51**	**1.68**
Dilutive instruments:						
Warrants			0.0	0.0		
Share plans			1.2	1.6		
			1.2	**1.6**		
Diluted earnings per ordinary share from continuing operations	**1,531**	**587**	**340.8**	**351.6**	**4.49**	**1.67**

Notes to the Consolidated annual accounts – continued

Earnings per ordinary share from discontinued operations

	Amount (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Net result from discontinued operations		10				
Net result from disposal of discontinued operations		-26				
Net result from discontinued operations	**0**	**-16**				
Basic earnings per ordinary share from discontinued operations	**0**	**-16**	**339.6**	**350.0**	**0.00**	**-0.05**
Dilutive instruments:						
Warrants			0.0	0.0		
Share plans			1.2	1.6		
			1.2	**1.6**		
Diluted earnings per ordinary share from discontinued operations	**0**	**-16**	**340.8**	**351.6**	**0.00**	**-0.05**

31 Interest and dividend included in net cash flow

Interest and dividend received or paid in cash

	2015	**2014**
Interest received	3,576	3,513
Interest paid	-611	-434
Dividend received	254	217
Dividend paid	-271	-187

Interest received, interest paid and dividend 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.

Notes to the Consolidated annual accounts – continued

32 Segments

The reporting segments for NN Group, based on the internal reporting structure, are as follows:

- Netherlands Life (Group life and individual life insurance products in the Netherlands)
- Netherlands Non-life (Non-life insurance in the Netherlands including disability and accident, fire, motor and transport insurance)
- Insurance Europe (Life insurance, pension products and to a small extent non-life insurance and retirement services in Central and Rest of Europe)
- Japan Life (Life insurance, primarily Corporate Owned Life Insurance (COLI) business)
- Asset Management (Asset management activities)
- Other (operating segments that have been aggregated due to their respective size; including banking activities in the Netherlands, corporate reinsurance and items related to capital management and the corporate head office)
- Japan Closed Block VA (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)

The Executive Board and the Management Board set the performance targets and approve and monitor the budgets prepared by the reporting segments. The segments formulate strategic, commercial and financial policies in conformity with the strategy and performance targets set by the Executive Board and 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 segments 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. Intercompany loans that qualify as equity instruments under IFRS-EU are presented in the segment reporting as debt; related coupon payments are presented as income and expenses in the respective segments.

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 and debt securities that are classified as loans. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds and 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 programmes (i.e. interest rate swaps, foreign exchange hedges) and direct equity hedges.
  - Market & other impacts: these impacts mainly comprise the change in the liability 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 expenses 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, rebranding costs, goodwill impairments, results related to early redemption of debt, and gains/losses from employee pension plan amendments or curtailments.

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. Disclosures on comparative years also reflect the impact of current year's divestments. 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 – continued

Segments (2015)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other	Japan Closed Block VA	Total
Investment margin	825		80	-15			-1	889
Fees and premium-based revenues	354		536	503	496		95	1,983
Technical margin	207		194	-15				386
Operating income non-modelled life business			4					4
Operating income	**1,385**	**0**	**814**	**473**	**496**	**0**	**94**	**3,262**
Administrative expenses	431		306	107	367		19	1,230
DAC amortisation and trail commissions	48		315	206			10	580
Expenses	**479**	**0**	**621**	**313**	**367**	**0**	**29**	**1,809**
Non-life operating result		122	4					125
Operating result Other						-79		-79
Operating result	**906**	**122**	**197**	**160**	**129**	**-79**	**64**	**1,499**
Non-operating items:								
– gains/losses and impairments	280	19	17	6		35		356
– revaluations	130	3	5	-14				122
– market & other impacts	-85						-44	-129
Special items before tax	-11	-6	-50	-10	-23			-100
Result on divestments	2					11		14
Result before tax	**1,222**	**138**	**168**	**141**	**106**	**-33**	**20**	**1,761**
Taxation	112	16	19	26	24	-20	-11	166
Minority interests	27		3					30
Net result	**1,083**	**122**	**146**	**116**	**82**	**-13**	**31**	**1,565**

Special items in 2015 reflect expenses related to the rebranding and to the restructuring programme.

The insurance liabilities are adequate at both the 90% and 50% confidence levels, both in aggregate for NN Group and for each of the segments. The insurance liabilities in the segments Netherlands Life and Japan Closed Block VA are approximately at the 90% confidence level.

Reference is made to Note 1 'Accounting policies', section 'Accounting policies for specific items – Adequacy test'.

Notes to the Consolidated annual accounts – continued

Segments (2014)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other	Japan Closed Block VA	Total
Investment margin	630		90	-2				718
Fees and premium-based revenues	404		518	437	486		117	1,962
Technical margin	102		194	-13				283
Operating income non-modelled life business			4					4
Operating income	**1,136**	**0**	**806**	**422**	**486**	**0**	**117**	**2,967**
Administrative expenses	457		310	97	328		21	1,213
DAC amortisation and trail commissions	64		322	185			12	583
Expenses	**521**	**0**	**632**	**282**	**328**	**0**	**33**	**1,796**
Non-life operating result		128	1					129
Operating result Other						-130		-130
Operating result	**615**	**128**	**176**	**140**	**158**	**-130**	**84**	**1,170**
Non-operating items:								
– gains/losses and impairments	-62	-3	21	3		14		-28
– revaluations	139	14	1	-2		-8		143
– market & other impacts	38		44				24	107
Special items before tax	-352	-97	-32	-2	-124	-80		-687
Result on divestments			-2		-2	62		57
Result before tax	**377**	**41**	**207**	**139**	**31**	**-142**	**109**	**762**
Taxation	41	4	46	48	5	-18	8	135
Minority interests	9		14					23
Net result from continuing operations	**327**	**38**	**146**	**91**	**26**	**-124**	**101**	**604**
Total net result from discontinued operations					-24	8		-16
Net result	**327**	**38**	**146**	**91**	**2**	**-116**	**101**	**588**

Special items in 2014 related to the agreement to make ING Group's closed defined benefit pension plan in the Netherlands financially independent and to the restructuring programme.

Result on divestments mainly reflects the divestment result of EUR 56 million on Sul América S.A. as disclosed in Note 6 'Associates and joint ventures'. NN Group's interest in Sul América S.A. was reduced and the remaining interest was transferred to ING Groep N.V. The divestment result of Sul América S.A. in 2014 is included in Other in the table above.

Notes to the Consolidated annual accounts – continued

Interest income and interest expenses by segment (2015)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total
Interest income	2,044	134	443	138		351	301	3,411
Interest expenses	-171	-2	-1	-2		-160	-278	-614
Interest income and interest expenses	**1,873**	**132**	**442**	**136**	**0**	**191**	**23**	**2,797**

Interest income and interest expenses by segment (2014)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total
Interest income	2,260	112	498	144	1	-27	314	3,302
Interest expenses	-275	-1	-2	-2		133	-289	-436
Interest income and interest expenses	**1,985**	**111**	**496**	**142**	**1**	**106**	**25**	**2,866**

Total assets and Total liabilities by segment

	Total assets 2015	Total liabilities 2015	Total assets 2014	Total liabilities 2014
Netherlands Life	92,263	77,874	94,563	79,867
Netherlands Non-life	4,368	3,621	4,454	3,694
Insurance Europe	21,065	19,175	22,217	20,181
Japan Life	13,318	11,401	10,910	9,284
Asset Management	580	189	571	185
Other	45,950	24,343	47,242	25,767
Japan Closed Block VA	13,297	12,351	17,030	16,019
Total segments	**190,841**	**148,954**	**196,987**	**154,997**
Eliminations	-28,689	-8,266	-31,506	-10,933
Total assets and Total liabilities	**162,152**	**140,688**	**165,481**	**144,064**

Notes to the Consolidated annual accounts – continued

33 Principal subsidiaries and geographical information

The table below provides additional information on principal subsidiaries, the nature of the main activities and employees by country.

Principal subsidiaries and geographical information (2015)

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income[3]	Total assets[3]	Result before tax	Taxation[4]
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance					
Nationale-Nederlanden Bank N.V.	Banking					
NN Investment Partners Holdings N.V.	Asset management					
REI Investment I B.V.	Real estate					
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance					
NN Re (Netherlands) N.V.	Reinsurance					
Movir N.V.	General insurance					
Private Equity Investments II B.V.	Private equity					
The Netherlands		6,463	7,859	115,384	1,321	108
NN Life Insurance Company, Ltd.	Life insurance					
NN Investment Partners (Japan) Co., Ltd.	Asset management					
Japan		757	2,782	25,702	176	19
NN Insurance Belgium N.V.	Life insurance					
NN Investment Partners Belgium S.A.	Asset management					
NN Insurance Services Belgium N.V.	General insurance					
Belgium		382	708	6,649	54	13
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.	Life insurance					
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.	General insurance					
Spain		451	588	4,386	19	3
NN Life Luxembourg S.A.	Life insurance					
NN Investment Partners Luxembourg S.A.	Asset management					
Luxembourg		101	384	2,622	39	2
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance					
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions					
Poland		778	468	2,060	96	19
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance					
Hungary		369	280	1,268	8	3
NN Hellenic Life Insurance Co. S.A.	Life insurance					
Greece		421	374	1,259	0	-16
NN Pojistovna, a.s.	Life insurance					
Czech Republic		481	214	1,254	32	5
NN Asigurari de Viata S.A.	Life insurance					
Romania		471	174	787	15	3
NN Životná poisťovna, a.s.	Life insurance					
Slovak Republic		252	98	542	9	3
NN Hayat ve Emeklilik A.S.	Life insurance					
Turkey		415	38	138	-24	-1
NN Pensionno-Osigritelno Druzestvo EAD	Pensions					
Bulgaria		128	20	56	0	0
Other		92	8	45	16	5
Total		**11,561**	**13,995**	**162,152**	**1,761**	**166**

1 All subsidiaries listed in this table are 100% owned.
2 The average number of employees is on a full-time equivalent basis.
3 Total income and Total assets excluding intercompany amounts.
4 Taxation is the taxation amount charged to the profit and loss account.

Notes to the Consolidated annual accounts – continued

Principal subsidiaries and geographical information (2014)

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income[3]	Total assets[3]	Result before tax	Taxation[4]
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance					
Nationale-Nederlanden Bank N.V.	Banking					
NN Investment Partners Holdings N.V.	Asset management					
REI Investment I B.V.	Real estate					
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance					
NN Re (Netherlands) N.V.	Reinsurance					
Movir N.V.	General insurance					
Parcom Capital B.V.	Private equity					
Nationale-Nederlanden Services N.V.	Life insurance					
The Netherlands		6,851	7,934	116,162	194	3
NN Life Insurance Company, Ltd.	Life insurance					
NN Investment Partners (Japan) Co., Ltd.	Asset management					
Japan		765	2,055	26,994	265	61
NN Insurance Belgium N.V.	Life insurance					
NN Investment Partners Belgium S.A.	Asset management					
NN Insurance Services Belgium N.V.	General insurance					
Belgium		382	892	7,518	43	14
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.	Life insurance					
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.	General insurance					
Spain		484	633	4,439	33	13
NN Life Luxembourg S.A.	Life insurance					
NN Investment Partners Luxembourg S.A.	Asset management					
Luxembourg		93	393	2,731	44	8
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance					
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions					
Poland		789	552	2,307	145	25
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance					
Hungary		393	276	1,280	8	0
NN Hellenic Life Insurance Co. S.A.	Life insurance					
Greece		408	293	1,219	10	4
NN pojistovna, a.s.	Life insurance					
Czech Republic		487	225	1,309	17	2
NN Asigurari de Viata S.A.	Life insurance					
Romania		365	167	746	17	3
NN Životná poist'ovna, a.s.	Life insurance					
Slovak Republic		258	101	539	12	2
NN Hayat ve Emeklilik A.S.	Life insurance					
Turkey		416	27	134	-32	0
NN Pensionno-Osigritelno Druzestvo EAD	Pensions					
Bulgaria		128	16	46	-1	0
Other		91	-19	57	7	0
Total		**11,910**	**13,545**	**165,481**	**762**	**135**

1 All subsidiaries listed in this table are 100% owned.
2 The average number of employees is on a full-time equivalent basis. In 2014 576 FTE's were employed by entities designated as Discontinued operations.
3 Total income and Total assets excluding intercompany amounts.
4 Taxation is the taxation amount charged to the profit and loss account.

Notes to the Consolidated annual accounts – continued

34 Taxation

Deferred tax (2015)

	Net liability 2014[1]	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2015[1]
Investments	3,214	-459		-15	21	2,761
Real estate investments	91		40	7		138
Financial assets and liabilities at fair value through profit or loss	29		-16		1	14
Deferred acquisition costs and VOBA	330		19	-16	24	357
Depreciation	-5					-5
Insurance liabilities	-2,321	228	66	-11	1	-2,037
Cash flow hedges	1,494	-147				1,347
Pension and post-employment benefits	8	9	1	1	-2	17
Other provisions	-16		6	-13	2	-21
Receivables	-30		3		1	-26
Loans	-12		-13	-2		-27
Unused tax losses carried forward	-512		-15	-19		-546
Other	-26	-3	32	87	-5	85
Deferred tax	**2,244**	**-372**	**123**	**19**	**43**	**2,057**
Presented in the balance sheet as:						
– deferred tax liabilities	2,274					2,101
– deferred tax assets	-30					-44
Deferred tax	**2,244**					**2,057**

1 Positive amounts are liabilities, negative amounts are assets.

Deferred tax (2014)

	Net liability 2013[1]	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2014[1]
Investments	937	2,109	-7	179	-4	3,214
Real estate investments	283		5	-197		91
Financial assets and liabilities at fair value through profit or loss	-17		3	43		29
Deferred acquisition costs and VOBA	312		20		-2	330
Depreciation	-5					-5
Insurance liabilities	-1,369	-994	46	-4		-2,321
Cash flow hedges	919	575				1,494
Pension and post-employment benefits	125	-41	-76			8
Other provisions	42		10	-68		-16
Receivables	-30					-30
Loans	1		-14	1		-12
Unused tax losses carried forward	-535		-14	37		-512
Other	-66	-13	76	-25	2	-26
Deferred tax	**597**	**1,636**	**49**	**-34**	**-4**	**2,244**
Presented in the balance sheet as:						
– deferred tax liabilities	648					2,274
– deferred tax assets	-51					-30
Deferred tax	**597**					**2,244**

1 Positive amounts are liabilities, negative amounts are assets.

Notes to the Consolidated annual accounts – continued

Deferred tax on unused tax losses carried forward

	2015	2014
Total unused tax losses carried forward	2,370	2,341
Unused tax losses carried forward not recognised as a deferred tax asset	-227	-327
Unused tax losses carried forward recognised as a deferred tax asset	**2,143**	**2,014**
Average tax rate	25.5%	25.5%
Deferred tax asset	**546**	**512**

Tax losses carried forward 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	
	2015	2014	2015	2014
Within 1 year	16	33	42	24
More than 1 year but less than 5 years	104	139	107	132
More than 5 years but less than 10 years	34	88	1,342	1,342
More than 10 years but less than 20 years				40
Unlimited	73	67	652	476
Total unused tax losses carried forward	**227**	**327**	**2,143**	**2,014**

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.

As at 31 December 2015 and 31 December 2014, 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.

Reference is made to Note 33 'Principal subsidiaries and geographical information' for more information on the taxation per country.

Taxation on result from continuing operations

	2015	2014
Current tax	43	86
Deferred tax	123	49
Taxation on result from continuing operations	**166**	**135**

The 2015 taxation changed by EUR 31 million to EUR 166 million from EUR 135 million in the previous year. This increase was mainly caused by a higher result before tax compared with 2014.

NN Group N.V., together with certain of its subsidiaries, is part of a fiscal unity for Dutch income tax purposes. The members of the fiscal unity are jointly and severally liable for any income taxes payable by the Dutch fiscal unity.

Notes to the Consolidated annual accounts – continued

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

	2015	2014
Result before tax from continuing operations	1,761	762
Weighted average statutory tax rate	25.2%	24.4%
Weighted average statutory tax amount	**444**	**186**
Associates exemption	-208	-67
Other income not subject to tax	-23	-18
Expenses not deductible for tax purposes	7	9
Impact on deferred tax from change in tax rates	-18	5
Deferred tax benefit from previously unrecognised amounts	-33	-6
Current tax benefit from previously unrecognised amounts		-3
Write-off/reversal of deferred tax assets	4	4
Adjustments to prior periods	-7	25
Effective tax amount	**166**	**135**
Effective tax rate	**9.4%**	**17.7%**

The weighted average statutory tax rate for 2015 increased slightly from the weighted average statutory tax rate for 2014. This is mainly a result of changes in the composition of the result before tax as well as minor changes in the statutory income tax rates.

The effective tax rate in 2015 of 9.4% was significantly lower than the weighted average statutory tax rate of 25.2% and the effective tax rate in 2014 of 17.7%. This is mainly a result of (higher) non-taxable income (mainly the tax exempt income on results from associates) as well as the recognition in 2015 of certain deferred tax assets on unused tax losses carried forward that were previously not recognised.

Taxation on components of other comprehensive income

	2015	2014
Unrealised revaluations Available-for-sale investments and other	412	-2,076
Realised gains/losses transferred to the profit and loss account	32	-12
Changes in cash flow hedge reserve	147	-575
Deferred interest credited to policyholders	-228	993
Remeasurement of the net defined benefit asset/liability	-9	42
Exchange rate differences and other changes		-11
Income tax	**354**	**-1,639**

Notes to the Consolidated annual accounts – continued

35 Fair value of 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	
	2015	**2014**	**2015**	**2014**
Financial assets				
Cash and cash equivalents	7,436	7,530	7,436	7,530
Financial assets at fair value through profit or loss:				
– trading assets		628		628
– investments for risk of policyholders	35,154	41,222	35,154	41,222
– non-trading derivatives	4,656	7,207	4,656	7,207
– designated as at fair value through profit or loss	443	492	443	492
Available-for-sale investments	74,393	72,277	74,393	72,277
Loans	33,787	29,694	31,013	27,802
Other assets[1]	2,986	3,372	2,986	3,372
Financial assets	**158,855**	**162,422**	**156,081**	**160,530**
Financial liabilities				
Subordinated debt	2,383	2,419	2,290	2,297
Debt securities issued	589		597	
Other borrowed funds	6,793	5,904	6,785	5,867
Investment contracts for risk of company	1,757	1,782	1,436	1,460
Investment contracts for risk of policyholders	1,585	1,569	1,585	1,569
Customer deposits and other funds on deposit	8,469	7,164	8,034	6,981
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	1,701	3,142	1,701	3,142
Other liabilities[2]	2,646	3,574	2,646	3,574
Financial liabilities	**25,923**	**25,554**	**25,074**	**24,890**

1 Other assets does not include (deferred) tax assets, net defined benefit assets and property obtained from foreclosures.
2 Other liabilities does not include (deferred) tax liabilities, net defined benefit liabilities, insurance liabilities, 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. 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.

Notes to the Consolidated annual accounts – continued

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

Cash and cash equivalents

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

Financial assets and liabilities at fair value through profit or loss

Derivatives

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

Available-for-sale investments

Equity securities

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

Debt securities

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

Loans

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

Other assets

Other assets are stated at their carrying value which is not significantly different from their fair value.

Subordinated debt and debt securities issued

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

Other borrowed funds

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

Investment contracts

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

Customer deposits and other funds on deposit

The carrying values of Customer deposits and other funds on deposit with no stated maturity approximate their fair value. The fair values of deposits with stated maturities have been estimated based on discounting future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions.

Notes to the Consolidated annual accounts – continued

Other liabilities

Other liabilities are stated at their carrying value which is not significantly different from their fair value.

Financial assets and liabilities at fair value

The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities (2015)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	31,644	2,697	813	35,154
Non-trading derivatives	234	4,214	208	4,656
Financial assets designated as at fair value through profit or loss	169	272	2	443
Available-for-sale investments	52,075	20,731	1,587	74,393
Financial assets	**84,122**	**27,914**	**2,610**	**114,646**
Financial liabilities				
Investment contracts (for contracts at fair value)	1,551	34		1,585
Non-trading derivatives	8	1,486	207	1,701
Financial liabilities	**1,559**	**1,520**	**207**	**3,286**

Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	10	14	604	628
Investments for risk of policyholders	36,997	3,985	240	41,222
Non-trading derivatives	152	7,055		7,207
Financial assets designated as at fair value through profit or loss	454	38		492
Available-for-sale investments	51,445	18,981	1,851	72,277
Financial assets	**89,058**	**30,073**	**2,695**	**121,826**
Financial liabilities				
Investment contracts (for contracts at fair value)	1,515	54		1,569
Non-trading derivatives	30	3,112		3,142
Financial liabilities	**1,545**	**3,166**	**0**	**4,711**

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

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

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on NN 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. 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.

Notes to the Consolidated annual accounts – continued

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 reliable pricing information on an ongoing basis.

Level 2 – Valuation technique supported by observable inputs

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

Level 3 – Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets (2015)

	Trading assets	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Level 3 Financial assets – Opening balance	604	240			1,851	2,695
Amounts recognised in the profit and loss account during the year	-22	-7	-3		11	-21
Revaluations recognised in Other comprehensive income (equity) during the year					57	57
Purchase of assets	17	70	168		293	548
Sale of assets	-165	-241			-353	-759
Maturity/settlement					-64	-64
Reclassification	-2			2		0
Transfers into Level 3	14	747	43			804
Transfers out of Level 3					-177	-177
Changes in the composition of the group and other changes	-446				-39	-485
Exchange rate differences		4			8	12
Level 3 Financial assets – Closing balance	**0**	**813**	**208**	**2**	**1,587**	**2,610**

Notes to the Consolidated annual accounts – continued

Transfers into Level 3

The transfers into Level 3 mainly reflect an improved fair value measurement of certain investments for risk of policyholders, resulting in classification as Level 3 instead of Level 2. The (changes in) fair value of these investments have no net impact on profit or loss or shareholders' equity as these are offset by (changes in) liabilities for Insurance and investment contracts.

Changes in Level 3 Financial assets (2014)

	Trading assets	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Level 3 Financial assets – Opening balance	720	248			2,109	3,077
Amounts recognised in the profit and loss account during the year	100	-1			-76	23
Revaluations recognised in Other comprehensive income (equity) during the year					122	122
Purchase of assets	34				229	263
Sale of assets	-115				-201	-316
Maturity/settlement					-35	-35
Reclassification	-18		-1			-19
Transfers into Level 3	2				2	4
Transfers out of Level 3	-119				-312	-431
Changes in the composition of the group and other changes			1			1
Exchange rate differences		-7			13	6
Level 3 Financial assets – Closing balance	**604**	**240**	**0**	**0**	**1,851**	**2,695**

Changes in Level 3 Financial liabilities (2015)

	Non-trading derivatives
Level 3 Financial liabilities – Opening balance	
Purchase of assets	167
Transfers into Level 3	40
Level 3 Financial liabilities – Closing balance	**207**

Changes in Level 3 Financial liabilities (2014)

There are no Level 3 Financial liabilities in 2014.

Level 3 – Amounts recognised in the profit and loss account during the year (2015)

	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets		-22	-22
Investments for risk of policyholders	-7		-7
Non-trading derivatives	-3		-3
Available-for-sale investments	-7	18	11
Level 3 Amounts recognised in the profit and loss account during the year	**-17**	**-4**	**-21**

Notes to the Consolidated annual accounts – continued

Level 3 – Amounts recognised in the profit and loss account during the year (2014)

	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	78	22	100
Investments for risk of policyholders	-1		-1
Available-for-sale investments	-76		-76
Level 3 Amounts recognised in the profit and loss account during the year	**1**	**22**	**23**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2015 of EUR 115 billion (2014: EUR 122 billion) include an amount of EUR 2.6 billion (2.3%) that is classified as Level 3 (2014: EUR 2.7 billion (2.2%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

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

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

- Those relating to trading assets 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
- Those relating to financial assets designated as at fair value through profit or loss are included in Valuation results on non-trading derivatives – Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading).

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

Investments for risk of policyholders

Investments for risk of policyholders classified as Level 3 Financial assets amounted EUR 813 million as at 31 December 2015 (2014: EUR 240 million). Net result is unaffected when reasonable possible alternative assumptions would have been used in measuring these investments.

Non-trading derivatives

Non-trading derivatives classified as Level 3 financial assets are mainly used to hedge the fair value risk of the mortgage loan portfolio at NN Bank. These derivatives classified as Level 3 amounted EUR 208 million as at 31 December 2015.

Available-for-sale

The Available-for-sale investments of EUR 1,587 million classified as Level 3 Financial assets as at 31 December 2015 (2014: EUR 1,851 million) mainly consists of investments in debt securities and shares in real estate investment funds and private equity investment funds of which the fair value is determined using (unadjusted) quoted prices in inactive markets for the securities or quoted prices obtained from the asset managers of the funds. It is estimated that a 10% change in valuation of these investments would have no significant impact on Net result but would increase or reduce Shareholders' equity by EUR 160 million (2014: EUR 190 million), being approximately 0.8% (before tax) (2014: 0.9% (before tax)), of total equity.

Level 3 Financial liabilities at fair value

Non-trading derivatives

The total amount of financial liabilities classified as Level 3 at 31 December 2015 of EUR 207 million relates to non-trading derivative positions. These derivatives are used to hedge the interest rate risk associated with the funding position of NN Bank.

Notes to the Consolidated annual accounts – continued

Financial assets and liabilities at amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities (2015)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	7,436			7,436
Loans	171	4,009	29,607	33,787
Financial assets	**7,607**	**4,009**	**29,607**	**41,223**
Financial liabilities				
Subordinated debt	1,553	830		2,383
Debt securities issued	589			589
Other borrowed funds		3,413	3,380	6,793
Investment contracts for risk of company	23		1,734	1,757
Customer deposits and other funds on deposit	4,513	3,956		8,469
Financial liabilities	**6,678**	**8,199**	**5,114**	**19,991**

Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	7,530			7,530
Loans	186	3,203	26,305	29,694
Financial assets	**7,716**	**3,203**	**26,305**	**37,224**
Financial liabilities				
Subordinated debt	1,233	1,186		2,419
Other borrowed funds		4,750	1,154	5,904
Investment contracts for risk of company	28		1,754	1,782
Customer deposits and other funds on deposit	4,471	2,693		7,164
Financial liabilities	**5,732**	**8,629**	**2,908**	**17,269**

36 Fair value of non-financial assets

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 and equipment' 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

	Estimated fair value		Balance sheet value	
	2015	2014	2015	2014
Real estate investments	1,564	1,104	1,564	1,104
Property in own use	42	88	42	88
Fair value of non-financial assets	**1,606**	**1,192**	**1,606**	**1,192**

Notes to the Consolidated annual accounts – continued

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

Methods applied in determining the fair value of non-financial assets (2015)

	Level 1	Level 2	Level 3	Total
Real estate investments			1,564	1,564
Property in own use			42	42
Fair value of non-financial assets	**0**	**0**	**1,606**	**1,606**

Methods applied in determining the fair value of non-financial assets (2014)

	Level 1	Level 2	Level 3	Total
Real estate investments			1,104	1,104
Property in own use			88	88
Fair value of non-financial assets	**0**	**0**	**1,192**	**1,192**

Changes in Level 3 Non-financial assets (2015)

	Real estate investments	Property in own use
Level 3 Non-financial assets – Opening balance	1,104	88
Amounts recognised in the profit and loss account during the year	25	-4
Revaluation recognised in equity during the year		-4
Purchase of assets	369	25
Changes in the composition of the group and other changes	66	-63
Level 3 Non-financial assets – Closing balance	**1,564**	**42**

Changes in Level 3 Non-financial assets (2014)

	Real estate investments	Property in own use
Level 3 Non-financial assets – Opening balance	721	100
Amounts recognised in the profit and loss account during the year	-7	-11
Purchase of assets	397	2
Sale of assets	-10	
Changes in the composition of the group and other changes	3	-3
Level 3 Non-financial assets – Closing balance	**1,104**	**88**

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2015)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	25		25
Property in own use	-4		-4
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**21**	**0**	**21**

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2014)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	3	-10	-7
Property in own use	-11		-11
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**-8**	**-10**	**-18**

Notes to the Consolidated annual accounts – continued

Real estate investments and Property in own use

Valuation methodology

The fair value of real estate is based on regular appraisals by independent, qualified valuers. The fair value is established using valuation methods that take into account recent comparable market transactions, capitalisation of income methods and/or discounted cash flow calculations. As volumes of actual transactions have been lower in recent years, more emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

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

Key assumptions

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

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield (%)	Vacancy (%)	Average lease term in years
The Netherlands							
Industrial	44	DCF	48–56	48–56	6.4–7.6		4.3
Office	72	Income Capitalisation	462	329	11		3.1
Germany							
Industrial	199	Income Capitalisation	42–118	43–102	5.5–7.8	10	5.6
Retail	154	Income Capitalisation	190–362	201–393	5.2	2	6.0
	148	DCF	240	243	5.1	2	8.9
Office	53	Income Capitalisation	260	256	4.8		3.1
France							
Industrial	119	Income Capitalisation	42–79	42–74	6.7–11.7	2	4.6
Office	135	Income Capitalisation	428–497	473–612	3.5–5.6		4.5
Spain							
Retail	250	DCF	184–271	188–284	5.8–6.0	8	7.4
Italy							
Retail	148	DCF	508	490	6	1	3.0
Office	70	DCF	-20–23	230	-4.8–0.4	34	4.7
Belgium							
Industrial	22	DCF	55	45	9		2.3
Retail	124	DCF	107–268	125–282	4.8–6.4	2	5.0
Denmark							
Industrial	16	DCF	148	125	6		14.2
Real estate under construction and other	52						
Total Real estate	**1,606**					**4.6**	**5.5**

Sensitivities

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

Notes to the Consolidated annual accounts – continued

37 Derivatives and hedge accounting

Use of derivatives and hedge accounting

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. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure.

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

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN 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.

Cash flow hedge accounting

NN Group's hedge accounting consists mainly of 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 Shareholders' equity. Interest income and expenses 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 2015, NN Group recognised EUR -435 million (2014: EUR 1,738 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 2015 is EUR 5,376 million (2014: EUR 5,958 million) gross and EUR 4,029 million (2014: EUR 4,464 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 42 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 -25 million expenses (2014: EUR -36 million income) which was recognised in the profit and loss account.

As at 31 December 2015, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 2,641 million (2014: EUR 3,511 million), presented in the balance sheet as EUR 2,756 million (2014: EUR 3,620 million) positive fair value under assets and EUR 115 million (2014: EUR 109 million) negative fair value under liabilities.

As at 31 December 2015 and 2014, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and Interest expenses on non-trading derivatives is EUR 249 million (2014: EUR 276 million) and EUR 22 million (2014: EUR 37 million), respectively, relating to derivatives used in cash flow hedges.

Notes to the Consolidated annual accounts – continued

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 2015, NN Group recognised EUR 11 million (2014: EUR -112 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 -6 million (2014: EUR 115 million) fair value changes recognised on hedged items. This resulted in EUR 5 million (2014: EUR 3 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2015, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -96 million (2014: EUR -68 million), presented in the balance sheet as EUR 11 million (2014: EUR 48 million) positive fair value under assets and EUR 107 million (2014: EUR 116 million) negative fair value under liabilities.

NN Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' for macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. NN Group applies the IFRS-EU 'carve-out' to its hedge the interest rate risk of mortgage loans. The hedging activities are designated under a portfolio fair value hedge on the mortgages, under IFRS-EU.

38 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 (2015)

	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	6,320	1,116					7,436
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						35,154	35,154
– non-trading derivatives	30	48	103	1,045	3,430		4,656
– designated as at fair value through profit or loss	101	193	5	13	3	128	443
Available-for-sale investments	382	751	2,007	12,338	51,969	6,946	74,393
Loans	318	292	886	4,323	25,024	170	31,013
Reinsurance contracts	9	27	28	8	71	93	236
Intangible assets		3	11	74	3	260	351
Deferred acquisition costs	25	13	86	188	1,130	89	1,531
Other assets	777	486	671	566	564	28	3,092
Remaining assets (for which maturities are not applicable)[3]						3,847	3,847
Total assets	**7,962**	**2,929**	**3,797**	**18,555**	**82,194**	**46,715**	**162,152**

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 Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months

Notes to the Consolidated annual accounts – continued

Assets by contractual maturity (2014)

	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	5,412	2,118					7,530
Financial assets at fair value through profit or loss:							
– trading assets						628	628
– investments for risk of policyholders[2]						41,222	41,222
– non-trading derivatives	5	51	79	1,210	5,858	4	7,207
– designated as at fair value through profit or loss	402		5	12		73	492
Available-for-sale investments	252	940	2,013	10,531	52,255	6,286	72,277
Loans	777	514	1,607	4,283	20,550	71	27,802
Reinsurance contracts	9	27	26	10	75	94	241
Intangible assets	1	2	11	67	11	265	357
Deferred acquisition costs	22	14	67	164	1,136		1,403
Other assets	966	637	732	966	131	30	3,462
Remaining assets (for which maturities are not applicable)[3]						2,860	2,860
Total assets	**7,846**	**4,303**	**4,540**	**17,243**	**80,016**	**51,533**	**165,481**

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 Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the Consolidated annual accounts – continued

39 Liabilities by maturity

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

Non-financial liabilities, including insurance and investment contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 50 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2015)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]	654	169		476	1,000		-9	2,290
Debt securities issued					600		-3	597
Other borrowed funds	3,125	150	230	1,487	1,793			6,785
Customer deposits and other funds on deposit	5,576	48	190	775	1,445			8,034
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	17	-10	43	210	-43		1,484	1,701
Financial liabilities	**9,372**	**357**	**463**	**2,948**	**4,795**	**0**	**1,472**	**19,407**
Insurance and investment contracts	680	909	3,747	16,584	58,872	35,192		115,984
Other liabilities	1,081	646	442	222	2,661	245		5,297
Non-financial liabilities	**1,761**	**1,555**	**4,189**	**16,806**	**61,533**	**35,437**	**0**	**121,281**
Total liabilities	**11,133**	**1,912**	**4,652**	**19,754**	**66,328**	**35,437**	**1,472**	**140,688**
Coupon interest due on financial liabilities	15	20	98	673	1,746			2,552

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 on a gross basis (unless the cash flows are actually settled net).
2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 13 'Subordinated debt'.

Liabilities by maturity (2014)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]	654		169	476	1,000		-2	2,297
Other borrowed funds	4,402	25	100	101	1,239			5,867
Customer deposits and other funds on deposit	5,629	29	125	563	635			6,981
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	182	194	170	853	3,430		-1,687	3,142
Financial liabilities	**10,867**	**248**	**564**	**1,993**	**6,304**	**0**	**-1,689**	**18,287**
Insurance and investment contracts	876	1,173	5,731	17,244	52,968	41,245		119,237
Other liabilities	1,875	532	546	239	3,019	329		6,540
Non-financial liabilities	**2,751**	**1,705**	**6,277**	**17,483**	**55,987**	**41,574**	**0**	**125,777**
Total liabilities	**13,618**	**1,953**	**6,841**	**19,476**	**62,291**	**41,574**	**-1,689**	**144,064**
Coupon interest due on financial liabilities	16	20	99	634	2,221			2,990

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 on a gross basis (unless the cash flows are actually settled net).
2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 13 'Subordinated debt'.

Notes to the Consolidated annual accounts – continued

40 Assets not freely disposable

The assets not freely disposable of EUR 357 million (2014: EUR 146 million) relate primarily to investments 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 41 'Transferred, but not derecognised financial assets'. Assets in securitisation programmes originated by NN Bank are disclosed in Note 46 'Structured entities'.

41 Transferred, but not derecognised 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. NN Group retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Group is obligated to return this amount upon termination of the lending arrangement. Reference is made to Note 16 'Insurance and investment contracts, reinsurance contracts- Changes in Investment contracts'.

Transfer of financial assets not qualifying for derecognition

	2015	2014
Transferred assets at carrying value:		
Available-for-sale investments	3,453	2,705
Associated liabilities at carrying value:		
Other borrowed funds	880	348

The table above does not include assets transferred to consolidated securitisation entities, as these related assets are not transferred from a consolidated perspective. Reference is made to Note 46 'Structured entities'.

42 Offsetting of financial assets and liabilities

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

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2015)

					Related amounts not offset in the balance sheet		
Balance sheet line item	**Financial instrument**	**Gross financial assets**	**Gross financial liabilities offset in the balance sheet**	**Net financial assets in the balance sheet**	**Financial instruments**	**Cash and financial instruments collateral**	**Net amount**
Non-trading derivatives	Derivatives	4,216		4,216	-1,189	-2,991	36
Financial assets at fair value through profit or loss		**4,216**	**0**	**4,216**	**-1,189**	**-2,991**	**36**
Available-for-sale investments	Other	50		50	-37	-10	3
Investments		**50**	**0**	**50**	**-37**	**-10**	**3**
Other items where offsetting is applied in the balance sheet		**81**	**0**	**81**	**0**	**-81**	**0**
Total financial assets		**4,347**	**0**	**4,347**	**-1,226**	**-3,082**	**39**

Notes to the Consolidated annual accounts – continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2014)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	5,470		5,470	-1,534	-3,833	103
Financial assets at fair value through profit or loss		**5,470**	**0**	**5,470**	**-1,534**	**-3,833**	**103**
Available-for-sale investments	Other	94		94		-94	0
Investments		**94**	**0**	**94**	**0**	**-94**	**0**
Total financial assets		**5,564**	**0**	**5,564**	**-1,534**	**-3,927**	**103**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2015)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	1,366		1,366	-1,185	-143	38
Financial liabilities designated as at fair value through profit or loss		**1,366**	**0**	**1,366**	**-1,185**	**-143**	**38**
Total financial liabilities		**1,366**	**0**	**1,366**	**-1,185**	**-143**	**38**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2014)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	1,729		1,729	-1,534	-147	48
Financial liabilities designated as at fair value through profit or loss		**1,729**	**0**	**1,729**	**-1,534**	**-147**	**48**
Total financial liabilities		**1,729**	**0**	**1,729**	**-1,534**	**-147**	**48**

43 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 annual accounts. 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 (2015)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	182	909	1,183	559	130	361	3,324
Contingent liabilities and commitments	**182**	**909**	**1,183**	**559**	**130**	**361**	**3,324**

Notes to the Consolidated annual accounts – continued

Contingent liabilities and commitments (2014)

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	11	885	302	196	74	41	1,509
Guarantees		1		6	1		8
Contingent liabilities and commitments	**11**	**886**	**302**	**202**	**75**	**41**	**1,517**

In 2013 and 2014, NN Bank entered into a cooperation agreement with subsidiaries of ING Group. This agreement deals, amongst others, with the transfer of mortgage loans from Nationale Nederlanden Hypotheekbedrijf N.V., a subsidiary of ING Group, to NN Bank. The cooperation is expected to result in a transfer of mortgage loans of approximately EUR 5 billion in the years 2016 to 2020. The mortgage loans will be transferred to NN Bank if and when the relevant mortgage loan is renewed by the customer at the interest reset date.

NN Group has issued certain guarantees, other than those included in Insurance contracts, which are expected to expire without being drawn on and therefore do not necessarily represent future net 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

	2015
2016	42
2017	35
2018	31
2019	27
2020	24
Years after 2020	67

44 Legal proceedings

General

NN Group is involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, involving claims by and against NN Group which arise in the ordinary course of its business, including in connection with its activities as insurer, lender, seller, 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, NN Group believes that some of the proceedings set out below may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of NN Group.

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 its tax positions, the ultimate outcome of these audits may result in liabilities that are different from the amounts recognised.

Unit-linked products in the Netherlands

Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008, 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 2015 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.

Notes to the Consolidated annual accounts – continued

The agreements with the two consumer protection organisations are not binding to 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). These claims have been rejected by NN and it defends itself 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 Group believes that this interim ruling is incorrect on several legal grounds.

In proceedings that were pending before the District Court in Rotterdam, the Court, upon request of the parties, including NN Group, 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. On 29 April 2015 the European Court of Justice issued its ruling on these preliminary questions submitted in relation to unit-linked products. The main preliminary question considered by the European Court of Justice was whether European law permits the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. The European Court of Justice ruled that the information requirements prescribed by the applicable European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for a policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Although the European Court does not decide on the applicable standards in specific cases and solely provides clarification on the interpretation of the applicable European directive, the ruling of the European Court of Justice has given clarification on this question of legal principle which is also the subject of other legal proceedings in the Netherlands. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings. In legal proceedings in the Netherlands which were suspended pending the outcome of the European procedure, rulings in first instance can be expected in the first half of 2016.

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 those legal challenges will succeed.

Customers of NN Group'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 ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) 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, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. There is no assurance that further proceedings for damages based on aforementioned legal grounds or other grounds will not be brought. The timing of reaching any finality on these legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

Rulings or announcements made by courts, including the European Court of Justice and advisory opinions 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 Group. 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.

Notes to the Consolidated annual accounts – continued

The book of policies of NN Group's Dutch insurance subsidiaries 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 Group's Dutch insurance subsidiaries 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 Group's Dutch insurance subsidiaries.

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

Belangenvereniging ING-Directiepensioenen

In July 2011, a number of individual retired Dutch General Managers of (subsidiaries of) NN Group and ING Bank together with the Interest Group ING General Managers' Pensions (Belangenvereniging ING Directiepensioenen), instituted legal proceedings against the 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. Appeal against this court decision was rejected by the Amsterdam Court of Appeal on 28 July 2015 which became final on 28 October 2015.

Asset management business in South Korea

In July 2013, the asset management business in South Korea was agreed to be sold to Macquarie Group. The transaction closed on 2 December 2013. In the fourth quarter of 2014, a provision was recognised following a claim letter that NN Group received from Macquarie Group under the share purchase agreement. On 11 August 2015, parties entered into a settlement agreement regarding the claim.

Insurance business in South Korea

Arbitration proceedings that were initiated in 2014 by the purchaser of NN Group's former insurance subsidiary in South Korea alleging that the financial condition of this subsidiary was not accurately depicted, are ongoing. At this stage the financial impact of these proceedings, if any, remains uncertain.

45 Companies and businesses acquired and divested

Acquisitions (2015)

Polish pension fund

During the first half of 2015, NN Group reached an agreement with ING Bank Slaski to acquire the remaining 20% stake in the Polish pension fund, NN Powszechne Towarzystwo Emerytalne S.A. (NN PTE) in which NN Group held 80% of the shares. In July 2015 NN Group completed the acquisition of the remaining stake for a consideration of PLN 128 million (approximately EUR 31 million). The consideration reflects a purchase price of PLN 210 million adjusted by a PLN 82 million dividend paid by NN PTE to ING Bank Slaski prior to completion. NN PTE manages the second pillar open-ended pension fund and the open-ended third-pillar voluntary pension fund.

Divestments (2015)

Parcom Capital Management

In December 2015, NN Group completed the sale of its wholly owned private equity management company, Parcom Capital Management. The divestment result on the sale of Parcom Capital Management is included in 'Results on disposals of group companies'. As a consequence of the sale of the asset management company, NN Group no longer has control over its investments in private equity funds, which are managed by Parcom Capital Management. These private equity funds were previously consolidated and the underlying investments were included in the Consolidated balance sheet in Trading assets and Available-for-sale investments. As a consequence of the divestment of Parcom Capital Management, these underlying investments were derecognised and the investments in the private equity funds are now included in the balance sheet under Associates and Joint ventures.

Divestments (2014)

Investment management business in Taiwan

In 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 did not have a significant impact on Net result. The transaction closed in April 2014.

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 did not have a significant impact on Net result. This transaction closed in December 2014.

Notes to the Consolidated annual accounts – continued

46 Structured entities

NN Group's activities involve transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. NN 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 Note 1 'Accounting policies', 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 annual accounts of NN Group as all assets and liabilities of these entities are included in the Consolidated balance sheet 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
- Investments – Third-party managed structured entities

Consolidated NN Group originated liquidity management securitisation programmes

In 2015, NN Bank, a subsidiary of NN Group, closed two public residential mortgage backed securitisation transactions (RMBS), raising a total amount of EUR 1.3 billion of funding from institutional investors. These transactions, Hypenn RMBS III and Hypenn RMBS IV, are NN Bank's third and fourth RMBS transactions. Earlier transactions were closed in 2013 for an amount of approximately EUR 2.1 billion and in 2014 for an amount of approximately EUR 0.5 billion. The related structured entities (Hypenn RMBS I B.V., Hypenn RMBS II B.V., Hypenn RMBS III B.V. and Hypenn RMBS IV B.V.) are consolidated by NN Bank. The related mortgage loans continue to be recognised in the balance sheet. As at 31 December 2015 these structured entities hold EUR 3.6 billion mortgage loans (2014: EUR 2.3 billion). These are partly funded through the issue of Residential Mortgage Backed Securities to ING Bank of EUR 394 million (2014: EUR 394 million) and to other third parties of EUR 1.5 billion (2014: EUR 316 million).

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 risk 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 asset 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 generally not consolidated by NN Group. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits on these investments (i.e. the policyholder assumes the variable returns).

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 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 investments in debt instruments of structured entities relate to asset-backed securities (ABS), classified as loans. Reference is made to Note 4 'Available-for-sale investments' where the ABS portfolio is disclosed.

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

The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the balance sheet of NN Group.

Notes to the Consolidated annual accounts – continued

47 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, among others, associates, joint ventures, key management personnel and the defined benefit and defined contribution plans. Transactions between related parties have taken place on an arm's length basis, and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

For the post-employment benefit plans see Note 27 'Staff expenses'.

Transactions with associates and joint ventures

	2015	2014
Assets	11	15

Transactions with ING Groep N.V. and ING Bank N.V.

	ING Groep N.V.		ING Bank N.V.	
	2015	2014	2015	2014
Assets	21	17	1,284	1,679
Liabilities	823	1,223	892	749
Income received			29	46
Expenses paid	25	57	87	11

Liabilities to ING Groep N.V. mainly include long-term funding. In 2015, NN Group purchased commercial real estate loans from ING Bank N.V for a total amount of EUR 383 million.

Dutch mortgages for a total amount of EUR 1.6 billion were transferred from WestlandUtrecht Bank to NN Group during 2015 (2014: EUR 1.2 billion). The transfers have been made at an arm's length price.

Master claim agreement

In 2012, ING Groep N.V., Voya Financial Inc. (formerly ING U.S., Inc.) and NN Insurance Eurasia N.V. (100% subsidiary of NN Group 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.

Indemnification and allocation agreement

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.

Relationship agreement and other agreements

In connection with the initial public offering of NN Group N.V., ING Groep N.V. and NN Group N.V. entered into a Relationship Agreement. The Relationship Agreement contains certain arrangements regarding the continuing relationship between ING Groep N.V. and NN Group N.V. The Relationship Agreement, with the exception of certain specific provisions, terminated on 2 February 2016, the date on which ING Groep N.V.'s holding of ordinary shares in the share capital of NN Group N.V. fell below 15% of the issued and outstanding ordinary shares.

The full text of the Relationship Agreement is available on the website of the Company.

In addition, in connection with the initial public offering of NN Group N.V., ING Groep N.V. entered into several other agreements with NN Group N.V. in 2014, such as a transitional intellectual property license agreement, a cooperation agreement, a joinder agreement, an equity administration agreement and a warrant agreement. And in 2015, NN Group N.V. and ING Groep N.V. entered into an agreement providing, among others, for allocation between them of insurance payments under the public offering securities insurance taken out by ING Groep N.V. with respect to the IPO of NN Group N.V. and a share repurchase agreement pursuant to which NN Group N.V. may from time to time repurchase NN Group N.V. shares from ING Groep N.V. in order to neutralise the dilutive effect of stock dividend issued by NN Group N.V.

Notes to the Consolidated annual accounts – continued

48 Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in the remuneration report in the annual report. The relevant sections of the remuneration report therefore are part of the annual accounts.

2015

Executive Board and Management Board (2015)

Amounts in thousands of euros	Executive Board	Management Board	Total
Fixed compensation:			
– base salary (cash)	1,764	3,055	4,819
– base salary (fixed shares)	441		441
– pension costs[1]	50	128	178
– individual savings allowance[1]	548	697	1,245
Variable compensation:			
– upfront cash	80	336	416
– upfront shares	80	336	416
– deferred cash	120	376	496
– deferred shares	120	504	624
– other[2]		128	128
Fixed and variable compensation	**3,203**	**5,560**	**8,763**
Other benefits			504
			9,267

1 As per 1 January 2015, the pension scheme for the members of the Executive Board and Management Board changed as a result of new pension legislation (Witteveen kader 2015). The pension costs consist of an amount of employer contribution (EUR 178 thousand) and an individual savings allowance (EUR 1,245 thousand which is 27.3% of the amount of base salary above EUR 100 thousand).
2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2015. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to five members of the Management Board as at 31 December 2015, i.e. those members that are not also member of the Executive Board. In the table above 'Total' refers to all members of the Management Board during 2015.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in Staff expenses as part of Total expenses. The total remuneration as disclosed in the table above (for 2015: EUR 9.3 million) includes all variable remuneration related to the performance year 2015. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2015 and therefore included in Total expenses in 2015, relating to the fixed expenses of 2015 and the vesting of variable remuneration of 2015 and earlier performance years, is EUR 9.6 million.

As at 31 December 2015, members of the Executive and Management Board held 66,401 NN Group N.V. shares.

No options on NN Group N.V. shares were held by members of the Executive and Management Board in 2015.

In 2015, 68,218 share awards on NN Group N.V. were granted to the Executive Board and Management Board.

Supervisory Board (2015)

Amounts in thousands of euros	
Fixed fees	695
Expense allowances	48
International attendance fees	26
Compensation Supervisory Board	**769**

The above mentioned amounts include VAT of EUR 119 thousand for 2015. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for members of the Supervisory Board.

Notes to the Consolidated annual accounts – continued

As at 31 December 2015, members of the Supervisory Board did not own any NN Group N.V. shares.

As at 31 December 2015, members of the Supervisory Board held no options on NN Group N.V. shares.

Loans and advances to members of the Management Board (2015)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Loans and advances	**743**	**4.64%**	**83**

The loans and advances provided to members of the Management Board consist of mortgage loans.

As at 31 December 2015, no loans and advances were provided to members of the Executive and Supervisory Board.

2014

Executive Board and Management Board (2014)

Amounts in thousands of euros	Executive Board	Management Board[1]	Total
Fixed compensation:			
– base salary	1,550	1,980	3,530
– pension costs	321	413	734
Variable compensation:			
– upfront cash	310	247	557
– upfront shares	310	247	557
– deferred cash	465	258	723
– deferred shares	465	370	835
– other[2]		113	113
Fixed and variable compensation	**3,421**	**3,628**	**7,049**
Other benefits			438
Charges by ING Group for members employed by ING Group			836
			8,323

1 Besides the compensation in the capacity as a Board member, one new Management Board member received a 'sign-on/buy-out award' which is awarded fully in shares with a total value of EUR 275,000 with a three-year tiered vesting schedule and a retention period of five years from the date of award.
2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in Staff expenses as part of Total expenses. The total remuneration as disclosed in the table above (for 2014: EUR 8.3 million) includes all variable remuneration related to the performance year 2014. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2014, and therefore included in Total expenses in 2014, relating to the fixed expenses of 2014 and the vesting of variable remuneration of 2014 and earlier performance years, was EUR 6.3 million.

As at 31 December 2014, members of the Executive and Management Board held 21,571 NN Group N.V. shares.

The total number of stock options in ING Groep N.V. shares held by Executive and Management Board amounted to 351,944 as at 31 December 2014. No options on NN Group N.V. shares were held.

In 2014, 81,267 share awards on ING Groep N.V. were granted to the Executive and Management Board. In 2014, 12,993 share awards on NN Group N.V. were granted to the Executive and Management Board.

Notes to the Consolidated annual accounts – continued

Supervisory Board (2014)

Amounts in thousands of euros	
Fixed fees	236
Expense allowances	13
International attendance fees	9
Charges by ING Group	285
Compensation Supervisory Board	**543**

The table above shows the fixed fees, expense allowances and international attendance fees for the Supervisory Board for the second half of 2014. The remuneration for the period from 1 January 2014 up to and including June 2014 was paid by ING Groep N.V. and the related charge from ING Group to NN Group is included in 'Charges by ING Group'.

The above mentioned amounts include VAT of EUR 33 thousand for the second half of 2014. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for the Supervisory Board.

As at 31 December 2014, members of the Supervisory Board did not own any NN Group N.V. shares and held 285,189 ING Groep N.V. shares.

As at 31 December 2014, members of the Supervisory Board held 165,506 stock options on ING Groep N.V. shares. No options on NN Group N.V. shares were held.

Loans and advances to members of the Management Board (2014)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Loans and advances	**825**	**4.43%**	**0**

As at 31 December 2014, no loans and advances were provided to members of the Executive and Supervisory Board.

49 Subsequent events

In January 2016, NN Group repurchased 8 million ordinary shares from ING Groep N.V. at a price of EUR 31.00 per share for an aggregate amount of EUR 250 million.

50 Risk management

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. By working within this structure, NN Group aims 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. These 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.

Notes to the Consolidated annual accounts – continued

Organisational risk management structure

Executive Board and its (sub) committees

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

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

While the Executive Board retains responsibility for NN Group's risk management, it has entrusted the day-to-day management and the overall strategic direction of the Company, including the structure and operation of NN Group's risk management and control systems, to the Management Board, and has entrusted certain other responsibilities to the Risk and Finance Committee. The sub-committees of the Risk and Finance Committee are the Non-Financial Risk Committee, the Product Risk Committee, the Model Committee, the Finance Committee, and the Group Investment Committee.

Chief executive officer and chief risk officer

The chief executive officer (the CEO), the chair of the Executive Board, bears responsibility for NN's risk management, including the following tasks:

- 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
- Making risk management decisions with regards 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

The CEO is also primarily responsible for the communication of risk-related topics to the Supervisory Board and the Risk and Finance Committee.

The Executive Board designates a chief risk officer (the CRO) from among the members of the Management Board, who is entrusted with the day-to-day execution of these tasks. Each business unit also has its own chief risk officer, who reports (directly or indirectly) to the CRO.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the Executive Board and the general affairs of the Company and its business and providing advice to the Executive Board. 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 Executive 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 NN Group'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 Executive 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 that 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 interests.

Notes to the Consolidated annual accounts – continued

- Second line of defence: oversight functions at the Head Office and at the business units with a major role for the risk management organisation, corporate legal and the compliance function. The CEO and CRO steer 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 include:
  - Developing the policies and guidance for their specific risk and control area
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks
  - Supporting the first line of defence in making proper risk-return trade-offs
  - Escalation power in relation to business activities that are judged to present unacceptable risks to NN 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. 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 risks are 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.

Notes to the Consolidated annual accounts – continued

- 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 control environment, 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 implemented a comprehensive set of risk management policies, standards and processes. 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 takes, avoids, retains and/or removes. The risk appetite framework consists of qualitative and quantitative statements pertaining to risk preferences, risk tolerances, risk limits and risk controls. In 2015, the risk appetite framework was based on quantitative measures that:

- Ensure that the holding company can meet its annual overhead expenses and obligations to its creditors and keep its businesses adequately capitalised even after a 1-in-20 annual risk sensitivity; NN Group quantifies the cash requirement to do so using capital sensitivities to Solvency II Basic Own Funds across its businesses. The capital impact in a 1-in-20 year event is measured by the Own Funds at Risk, or OFaR metric which is described in more detail later in this section and is used to present the risk profile of NN Group. OFaR is a key input into determining the capital NN Group should have available to capitalise its businesses to adequate solvency levels.

- Limit the impact of a 1-in-20 annual risk sensitivity on the IFRS net result; NN Group quantifies this risk using sensitivities on the IFRS results after tax.

In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework. Together they serve to guide risk taking conduct in the areas of underwriting, Asset and Liability management (ALM), investing and operations. These statements support NN Group's strategy, diminish unwanted or excessive risk taking, and further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- Managing underwriting. Underwriting and product development are essential to the insurance business. NN Group offers a comprehensive range of easy to understand and transparent value-for-money products that can be effectively risk managed over the expected life of the contract.

- Asset and Liability Management. NN Group matches its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any mismatches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations.

- Managing investments. NN Group's appetite for investments provides an appropriate risk and return for NN's policyholders and shareholders.

- Managing operations. Under this category, NN Group specifies requirements for managing reputation, business continuity, processes and controls, as well as for providing a safe and engaging work environment that supports qualified and motivated colleagues.

Risk limits

The quantitative risk appetite statements are translated into quantitative risk limits for the business units which for the year 2015 pertained to Basic Own Funds (Solvency II capital), IFRS earnings (net result) and – where necessary – additional interest rate risk limits. The business units report regularly on their risk profile compared to applicable risk appetite and risk limits.

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.

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.

Notes to the Consolidated annual accounts – continued

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.

Non-financial risks
Operational, compliance, legal and related second order reputation risks are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). As non-financial risks are diverse in nature, NN Group has a framework in place governing the process of identifying, assessing, mitigating, monitoring and reporting non-financial risks. Important elements in this framework are NFR risk assessments, action tracking, key risk indicators, key control registers, incident reporting, NFR Committee and NFR Dashboard.

Own risk and solvency assessment and internal capital adequacy assessment process
NN Group (and each of its regulated insurance subsidiaries) prepares 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 evaluates how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside ORSA, either internally or by external parties such as The Dutch Central Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes a forward looking overall assessment of NN Group's solvency position in light of the risks it holds.

At least once a year, NN Group's banking and investment management operations 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.

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

Recovery planning
NN Group has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

Risk profile
As described under the Risk Appetite section, NN Group manages the level of risk exposures by measuring and limiting the impact of a 1-in-20 year adverse scenario on the Solvency II Own Funds. The loss of Own Funds in a 1-in-20 year scenario is referred to as Own Funds at Risk (OFaR), the metric used to describe the risk profile throughout the remaining section.

NN Group uses an internal model to measure OFaR across the Solvency II entities. The underlying model used to calculate OFaR is based on the (Partial) internal model (PIM) approved by the DNB, but with several key differences:

- OFaR measures losses in a 1-in-20 year event (or 95% level of confidence), whereas the PIM measures losses in a 1-in-200 year event, (or 99.5% level of confidence)
- OFaR is based on the internal model across all Solvency II entities, whereas PIM is based on internal model across Dutch entities, and Standard Formula for international entities
- Credit spread model used for OFaR shocks the Volatility Adjustment applied to the liabilities to measure the specific spread risk related to Own Funds, whereas the PIM assumes no change in the Volatility Adjustment in a shocked-event but factors the illiquidity of liabilities into the asset shocks in order to ensure appropriate risk capital relative to the riskiness of the underlying assets
- For OFaR, mortgages are shocked under the counterparty default risk module, whereas mortgages are captured under the spread risk module for the PIM

Notes to the Consolidated annual accounts – continued

OFaR sensitivities provide management with information as to how Own Funds could be impacted under less severe shocks than the 1-in-200 shocks required for Solvency Capital Requirement purposes, but under more likely stress scenarios for which management is more likely to need to respond. Where necessary, such as interest rate risk at certain units or hedging of separate account guarantees, additional limits are applied to align with the goal of hedging on a more granular economic basis.

Within this section, OFaR is used to elaborate on the risk profile of NN Group. The table below provides an overview of OFaR per major risk category.

OFaR overview

	2015	2014
Insurance Risk	1,484	1,456
Business Risk	854	882
Market and credit Risk:	1,194	1,183
– own account	1,115	1,033
– separate account	252	409
– diversification between Own account and Separate account	-173	-259
Diversification between modelled risks	-1,118	-1,081
Modelled OFaR	**2,414**	**2,440**
Operational Risk	172	168
Non-Solvency II entities	594	504
Loss-absorbing capacity of Deferred Taxes	-539	-542
Total OFaR	**2,641**	**2,570**

OFaR for Operational risk of Solvency II entities is based on the Solvency II standard formula calculation. To be relevant, however, for a 1-in-20 year event (or 95% level of confidence), the 95% figure is derived from the 99.5% SCR using an assumed underlying distribution.

In line with NN Group's Solvency II Own Funds calculation, Japan is treated as 'equivalent' under OFaR. The Solvency II concept of Equivalence is granted to capital frameworks that are deemed to have similarity with the Solvency II framework and/or principles and as such can be relied-upon to assess capital requirements. Accordingly, should a 1-in-20 event occur in Japan, NN Group's Own Funds will be impacted to the extent the local regulatory capital is impacted. Hence regulatory capital at risk, related to local Japanese accounting and capital requirements, (under a 1-in-20 adverse event) is used for Japan. 1-in-20 shocks are also applied to non-insurance entities (such as NN Bank, NN IP and non-regulated Pension Funds) and included in the NN Group OFaR – also by summing up and assuming no diversification.

In line with Solvency II, a loss-absorbing capacity of deferred taxes (or LACDT) is recognised. NN Group's total loss in a 1-in-20 adverse event would be partially offset by tax recoveries, and these are recognised to the extent to be expected to be recoverable.

In past years, Economic Capital has been disclosed to demonstrate the risk profile of NN Group businesses. With the introduction of Solvency II, NN Group has de-emphasised Economic Capital as a management metric due to the significant overlap with the Solvency Capital Requirement (SCR) of Solvency II. However, the SCR for NN Group is based on a partial internal model with various units or risks on an internal model in line with our Economic Capital model and other units or risks on the Standard Formula as defined within Solvency II. Further, there is an increased management focus on managing the risks to regulatory capital which under Solvency II are much more closely aligned to economic risks and economic capital than under Solvency I. Based on this analysis and in order to provide a consistent basis across insurance businesses, other than Japan Life, NN Group places greater emphasis on Own Funds at Risk.

Notes to the Consolidated annual accounts – continued

Main types of risks
The following principal 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 exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks occur because of internal, industry, regulatory/political, 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 (credit risk) is the risk of potential losses due to default by NN Group's debtors (including bond issuers), trading counterparties or mortgage holders. 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. In relation to market and credit risk, NN Group distinguishes between own account business and separate account business.
  - Own account business: In the case of own account business, NN Group directly bears the market and credit risk of its invested assets and liabilities. Own account business includes NN Group's life insurance and non-life insurance business, as well as other invested assets and direct liabilities.
  - Separate account business: In the case of separate account business, 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 Statement of Living our Values 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.

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 Own Funds 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 (COLI) business in Japan Life, and the healthcare insurance business in Greece.

The Netherlands Non-life portfolio also includes Property & Casualty (P&C) products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities.

Notes to the Consolidated annual accounts – continued

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 – as referred to under Risk Management Policies; Standards and Processes.

Insurance risks are diversified between business units. Risk not sufficiently 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
- 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

Risk measurement

The table below sets out NN Group's OFaR for insurance risk as at 2015 and 2014, respectively.

OFaR for insurance risk

	2015	2014
Mortality (including longevity)	1,445	1,413
Morbidity	203	208
P&C	218	225
Diversification benefit	-382	-390
Total	**1,484**	**1,456**

The OFaR for insurance risks is mostly mortality risk, in particular longevity risk (or negative mortality) in the Netherlands pension business.

Given the long-term nature of the longevity portfolio, the underlying risks are sensitive to interest rates due to the discounting impact. At the end of 2015, interest rates were only slightly higher than at year-end 2014 and had little impact in discounting insurance risks – this is seen in the relatively stable OFaR for insurance risk in the table above. Note that NN Group's businesses calculate insurance risks locally at a 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using an assumed underlying distribution.

Portfolio developments during the course of 2015, such as buyouts, transfers from the separate account and growth of individual annuities, generally increased the mortality (longevity) risk capital. The OFaR amount for all insurance risks remained quite stable during 2015.

The P&C risk is primarily underwritten by Netherlands Non-Life and catastrophic losses are partially reinsured to external reinsurers through NN Re.

Business risk

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

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 and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. 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 Central and Eastern Europe.

Notes to the Consolidated annual accounts – continued

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 COLI business.

The OFaR calculations for policyholder behaviour risk take into account the present value impact of changes in policyholder behaviour assumptions.

Expense risk
Total administrative expenses for NN Group in 2015 amounted to EUR 1,758 million. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts 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 future actual expenses per policy exceed the expenses assumed per policy. A significant portion of the fixed expense risk 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. Furthermore, the valuation of the Group pension business in the Netherlands includes long-term best estimate expense assumptions, discounted over a long period of time. Changes in these assumptions will affect NN Group's expense risk.

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

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

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

Risk measurement
The table below sets out NN Group's OFaR for business risk as at 2015 and 2014, respectively.

OFaR for business risk[1]

	2015	2014
Persistency	318	309
Premium	8	11
Expense	743	774
Diversification benefit	-215	-212
Total	**854**	**882**

1 Note that NN Group's businesses calculate business risks locally at a 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using scaling with an assumed underlying distribution.

The main contributors to policyholder behaviour risk are Netherlands Life, the unit-linked business in Central and Eastern Europe, and Japan Closed Block VA.

The majority of the expense risk capital is driven by expense inflation risk in Netherlands Life. The OFaR amount related to expense risk, in particular for Netherlands Life, is marginally lower in 2015 due to higher interest rates in 2015 for the relevant part of the curve and lower expense assumptions for unit costs and overlay costs.

Persistency risk increases due to new business and assumption updates in the European business.

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 relatively severe stresses from both will occur concurrently.

Notes to the Consolidated annual accounts – continued

Market and credit risk: Own account

Market and credit risks are the risks related to the impact of financial markets on NN Group's balance sheet. NN Group distinguishes between market and credit risks on NN Group's own investment asset portfolio (Own account) and portfolios or businesses where the majority of such risks are primarily borne by policyholders (separate account).

This section refers to the market and credit risks of the Own account in which NN Group and its shareholders take on market and credit risks in pursuit of returns. These returns are used to fulfil policyholder obligations with any surplus return benefitting the Group and its shareholders. Accordingly, optimisation within the risk appetite is paramount to generating returns for both policyholder and shareholder.

The table below sets out NN Group's OFaR for the Own account assets and liabilities as at 2015 and 2014, respectively.

OFaR for market and credit risk: Own account

	2015	2014
Equity risk	1,135	1,085
Real estate risk	303	283
Interest rate risk	857	935
Credit spread risk	1,273	1,074
Foreign exchange risk	168	166
Inflation risk	36	44
Counterparty default risk	113	171
Diversification benefit	-2,770	-2,725
Total Market and credit risk	**1,115**	**1,033**

Within NN Group's Own account, market risks are driven by the fixed income portfolio that generates spread risk and interest rate risk for duration mismatches. While it constitutes a smaller asset allocation, equity investments also generate risks as these risks cannot be directly offset by the liabilities. By the end of 2015, the total market and credit risk of NN Group's Own account had increased along with the increases in spread and equity risk.

The OFaR for the fixed income bonds is calculated within spread risk and OFaR for the fixed income loans including mortgages within counterparty default risk. OFaR for non-fixed income assets such as equity and real estate are addressed in the respective risk categories.

The table below sets out NN Group's asset class values as at 31 December 2015 and 2014. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Investment assets

	Market value 2015	% of total 2015	Market value 2014	% of total 2014
Fixed income	**97,635**	**83.3%**	**91,524**	**83.0%**
Government bonds	54,351	46.3%	52,919	48.0%
Government loans	719	0.6%	667	0.6%
Financial bonds	3,363	2.9%	3,825	3.5%
Financial loans	802	0.7%	641	0.6%
Corporate bonds	8,568	7.3%	7,731	7.0%
Corporate loans	3,344	2.9%	2,828	2.6%
Asset Backed Securities	3,810	3.3%	5,950	5.4%
Residential Mortgage Loans [1]	22,340	19.0%	16,683	15.0%
Other Retail Loans	338	0.3%	280	0.3%
Non-Fixed income	**11,835**	**10.1%**	**11,238**	**9.5%**
Common & Preferred Stock	3,350	2.9%	3,000	2.7%
Private Equity	865	0.7%	919	0.8%
Real Estate	5,080	4.3%	4,908	3.8%
Mutual Funds	2,540	2.2%	2,411	2.2%
Money Market Instruments [2]	**7,735**	**6.6%**	**8,234**	**7.5%**
Total Investments	**117,205**	**100.0%**	**110,996**	**100.0%**

1 Mortgages are on book value.
2 Money market mutual funds are included in Money Market Instruments.

Notes to the Consolidated annual accounts – continued

As presented in the table, whilst allocation to government bonds remains fairly stable, several shifts in the portfolio have occurred over the course of 2015. In particular:

- Reductions in exposures to Asset-backed securities
- Lower exposure to financial bonds and higher exposure to other sectors (labelled 'corporate bonds' above)
- Material increase in allocation to mortgages which provide a good risk-return trade-off and fit well with the liquidity profile of NN Group's Own account

Equity risk

As shown in the asset tables above, equity plays a role in the Own account by providing diversification and up-side return potential. This does present a risk which is measured as the impact of changes in prices of directly held equities and equity derivatives such as futures and options.

Risk profile

The table below sets out the market value of NN Group's equity assets as at 2015 and 2014, respectively.

Equity assets

	2015	2014
Common & Preferred Stock	3,350	3,000
Private Equity	865	919
Equity Mutual Funds	2,540	2,411
Total	**6,755**	**6,330**

Within the Own account, NN Group is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds.

As shown in the market and credit risk table – and depicted in the investments listed above – equity risk increased over the course of 2015. This was primarily due to equity market appreciation and a move to higher yielding assets in line with the strategic asset allocation of NN Group's businesses.

Risk mitigation

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

Real estate risk

With the long-term nature of the liabilities of NN Group's Own account, illiquid assets such as real estate can play an important role in the strategic allocation. Real estate risk is the risk of loss of market value of real estate assets. Market values are driven by a change in rental prices, required investor yield, and/or other factors.

Risk profile

NN Group's real estate exposure increased from EUR 4,908 million at 31 December 2014 to EUR 5,080 million as at 31 December 2015. 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 or 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 actual real estate assets.

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

The table below sets out NN Group's real estate exposure by sector type excluding leverage as at 31 December 2015 and 2014, respectively. Real estate is valued at fair value in the OFaR model in the Netherlands. Fair value revaluations for 68% of the real estate portfolio directly affect the IFRS result before tax.

Notes to the Consolidated annual accounts – continued

Real estate assets by sector

	Revalued through P&L 2015	Not revalued through P&L 2015	Revalued through P&L 2014	Not revalued through P&L 2014
Residential	0%	7%	2%	14%
Office	16%	2%	16%	2%
Retail	38%	12%	35%	10%
Industrial	13%	4%	14%	0%
Other	1%	7%	1%	6%
Total	**68%**	**32%**	**68%**	**32%**

Risk mitigation

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

Risk measurement

Along with the increase in exposure to real estate assets, OFaR for real estate risk increased from EUR 283 million at the end of 2014 to EUR 303 million at the end of 2015.

Interest rate risk

Interest rate risk is the impact of interest rate changes on Own Funds as a result of the associated change in the value of the assets and liabilities.

Risk profile

The table below provides an overview of NN Group's insurance business' undiscounted best estimate policyholder liability cash flows (net of expenses and commissions) by maturity.

Liabilities' annual undiscounted cash flows (net of expenses and commissions)[1]

	Liabilities originated in					
	Eurozone EUR		Japan JPY[2]		Other Currencies[2]	
Maturities	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
0–1	-2,793	-3,364	365	301	-339	-309
1–2	-4,363	-4,391	-67	-48	-138	-169
2–3	-5,512	-6,040	-383	-311	-142	-161
3–5	-7,800	-7,663	-1,261	-1,015	-344	-348
5–10	-16,085	-15,332	-3,790	-2,892	-827	-789
10–20	-25,010	-23,632	-3,168	-2,596	-1,011	-1,024
20–30	-15,678	-14,887	-1,128	-940	-400	-434
30+	-15,218	-13,726	-684	-600	-86	-103
Total	**-92,459**	**-89,035**	**-10,116**	**-8,101**	**-3,287**	**-3,337**

1 The 'minus' sign in the table means cash outflow from NN Group to the policyholders, agents, intermediaries, and other expense related outflow.
2 Japan and Other Currencies are presented at constant FX of 31 December 2015. Other includes CZK, HUF, PLN, RON and USD.

As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows (about one third beyond the point at which extrapolation to the UFR begins), which related primarily to the pension business in the Netherlands.

Notes to the Consolidated annual accounts – continued

Risk mitigation

NN Group hedges its economic interest rate exposure by investing in long-term bonds and swaps matching liability maturities. The remaining interest rate gap may be, from time to time, further reduced through purchases of receiver swaps and swaptions. Interest rate risk management focuses on matching asset and liability cash flows as much as possible.

Risk measurement

For purposes of discounting liabilities under Solvency II – therefore relevant for OFaR, NN Group uses a swap curve less credit risk adjustment plus Volatility Adjustment. The Volatility Adjustment is treated as part of the credit spread risk. In line with Solvency II, NN Group extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR) – as defined under Solvency II. The OFaR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

NN Group's Own Funds are more at risk (higher OFaR) when the Volatility Adjustment increases and when rates are low. Both these elements pose a distortion to the economic curve (leading to different liability valuation than asset valuation) and thereby increase risk to Own Funds. At end of 2015, interest rates were slightly higher than at the end of 2014; the difference between the Solvency II curve and the curve used for interest rate risk matching was reduced, accordingly exhibiting a lower risk to Own Funds. Changes in the underlying portfolio matching also play a role – but matching has remained stable on an economic basis during the year.

OFaR does not currently include the change in value of the risk margin due to interest rate shocks. This is deemed to be conservative as the risk margin has the effect of lowering the risk for NN Group under the Solvency II curve with the UFR.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the Volatility Adjustment on the liabilities. To the extent that the asset portfolio has a different asset mix than the reference portfolio for the Solvency II Volatility Adjustment, or to the extent that the duration of the liabilities is different than the assets or the assumptions in the Volatility Adjustment there is volatility in the Own Funds and this is captured as such in the OFaR calculation.

Risk profile

The table below sets out the market value of NN Group's fixed-income bonds which are subject to credit spread risk OFaR by type of issuer at 31 December 2015 and 2014, respectively.

Fixed-income bonds by type of issuer

		Market value		Percentage
	2015	**2014**	**2015**	**2014**
Government Bonds	54,351	52,919	78%	76%
Asset-Backed Securities	3,810	5,950	5%	8%
Financial Institutions	3,363	3,825	5%	5%
Utilities	1,372	1,713	2%	2%
Telecom	1,152	1,186	2%	2%
Transportation & Logistics	1,081	1,061	2%	2%
Food, Beverages & Personal Care	104	781	0%	1%
Natural Resources	342	731	0%	1%
Other[1]	4,517	2,259	6%	3%
Total	**70,092**	**70,425**	**100%**	**100%**

1 'Other' is comprised of General Industries, Automotive, Retail, Builders and Contractors.

Notes to the Consolidated annual accounts – continued

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

Market value government bond exposures (2015)

	Rating[1]	Domestic exposure[2]	Market value of government bond 2015 by number of years to maturity 0–1	1–2	2–3	3–5	5–10	10–20	20–30	30+	Total 2015
Germany	AAA	0%	115	163	209	136	1,236	3,750	3,629		9,238
Netherlands	AAA	99%	76	56	65	186	1,192	1,614	4,337	351	7,877
France	AA	0%	67	108	89	186	166	1,536	2,047	3,456	7,655
Japan	A+	95%	424	203	220	602	2,738	2,574	1,059	407	8,227
Belgium	AA	32%	213	573	237	810	863	1,937	1,590		6,223
Austria	AA	0%	90	86	86	415	618	1,616	1,285	576	4,772
Italy	BBB	0%	20	38	28	114	111	1,237	37	6	1,591
European Union[3]	AAA	100%	130	37	24	140	270	303	599		1,503
Spain	BBB	50%	14	47	11	0	197	582	873		1,724
Finland	AAA	0%	13	46	8	292	405	64	571		1,399
Poland	A	63%	57	49	8	98	199	341	30		782
Others		0%	330	270	229	394	1,037	767	333		3,360
Total			**1,549**	**1,676**	**1,214**	**3,373**	**9,032**	**16,321**	**16,390**	**4,796**	**54,351**

1 NN Group 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 Includes EIB, ECB, EFSF, EU and ESM.

Market value government bond exposures (2014)

	Rating[1]	Domestic exposure[2]	Market value of government bond 2014 by number of years to maturity 0–1	1–2	2–3	3–5	5–10	10–20	20–30	30+	Total 2014
Germany	AAA	0%	73	118	120	316	1,302	3,956	4,232		10,117
Netherlands	AAA	98%	133	79	51	197	1,231	1,728	4,487	113	8,019
France	AA	0%	99	44	83	146	244	373	3,182	3,187	7,358
Japan	A+	97%	191	145	149	460	1,995	2,057	940	363	6,300
Belgium	AA	35%	230	206	592	678	1,240	1,158	1,955	149	6,208
Austria	AAA	0%	42	82	87	292	854	1,673	1,287	541	4,858
Italy	BBB	0%	104	21	38	57	180	1,189	38	6	1,633
European Union[3]	AAA	100%	42	131	36	94	271	311	538		1,423
Spain	BBB	64%	24	14	49	12	93	629	560		1,381
Finland	AAA	0%	16	13	47	117	255	412	443		1,303
Poland	A	64%	40	67	51	49	226	63	319		815
Others		46%	712	305	259	425	805	671	327		3,504
Total			**1,706**	**1,225**	**1,562**	**2,843**	**8,696**	**14,220**	**18,308**	**4,359**	**52,919**

1 NN Group 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 Includes EIB, ECB, EFSF, EU and ESM.

Exposures to Dutch, German and French government bonds are primarily held by Netherlands Life. Of the EUR 17 billion German and Dutch government bonds held by NN Group, almost half will mature after year 20; more than 70% of the EUR 8 billion of 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, The Slovak Republic, Romania, and Turkey are mainly domestically held. The EUR 110 million Greek government bonds (also bucketed under 'Others') are all held by the Greek business unit, and 50% of the Spanish government bonds are held by NN Group's Spanish business unit. In the OFaR model, all government bonds contribute to credit spread risk including those rated AAA.

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

Notes to the Consolidated annual accounts – continued

Market value non-government bond exposures (2015)

	Market value of non-government bond securities 2015 by number of years to maturity								
	0–1	1–2	2–3	3–5	5–10	10–20	20–30	30+	Total 2015
AAA	107	84	336	305	945	543	1,081	1,729	5,130
AA	278	209	280	601	648	681	394	55	3,146
A	695	724	685	923	1,718	490	409	367	6,011
BBB	422	408	323	1,052	1,768	344	36	138	4,491
BB	25	58	41	141	134	11		100	510
B		3	4	103	138			8	256
CCC			5	12	1				18
Total	**1,527**	**1,486**	**1,674**	**3,137**	**5,352**	**2,069**	**1,920**	**2,397**	**19,562**

Market value non-government bond exposures (2014)

	Market value of non-government bond securities 2014 by number of years to maturity								
	0–1	1–2	2–3	3–5	5–10	10–20	20–30	30+	Total 2014
AAA	142	182	249	632	1,274	848	1,395	2,087	6,809
AA	130	295	141	288	1,154	607	282	115	3,012
A	700	761	556	1,113	1,689	745	677	102	6,343
BBB	240	405	378	765	1,217	340	51	373	3,769
BB	36	26	79	63	99	31	44	291	669
B				16	31		3	13	63
CCC	299				1	10			310
Total	**1,547**	**1,669**	**1,403**	**2,877**	**5,465**	**2,581**	**2,452**	**2,981**	**20,975**

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 asset-backed securities portfolio as at 31 December 2015 and 2014, respectively.

Asset-backed securities

	Market value 2015	% of total 2015	Market value 2014	% of total 2014
RMBS	2,806	73%	3,825	64%
Car loans	407	11%	963	16%
Credit cards	210	6%	368	6%
CMBS	3		333	6%
Student loans	219	6%	242	4%
Equipment loans			90	2%
Consumer loans	133	3%	78	1%
SME loans	22	1%	40	1%
Other	10		11	
Total	**3,810**	**100%**	**5,950**	**100%**

Risk mitigation
NN Group aims to maintain a low-risk, well diversified fixed income 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. 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 OFaR for credit spread risk reflects, with 95% level of confidence, the risk of Own Funds to spread movements – impacting fixed income assets held in the Own account and the liabilities in the Own account due to the Solvency II Volatility Adjustment. Fixed income assets are shocked with severity linked to a 1-in-20 year event (or 95% level of confidence) and depending on the credit class, rating and duration. Given that the Own account liabilities are valued using the Solvency II Volatility Adjustment, shocks are applied to the reference portfolio to determine the level at which the liabilities will be valued under a 1-in-20 scenario. This has a positive impact on Own Funds, offsetting the impact on the asset-side. In this regard, the OFaR spread model identifies mismatches (basis difference) between the Own account assets and the reference portfolio and seeks the worst case loss within the desired level of confidence – in this case 95%.

Notes to the Consolidated annual accounts – continued

Note that the spread model used for OFaR assesses the impact on Own Funds under adversity and follows the dynamics of the balance sheet valuation. The spread model under the PIM used for determining capital requirements (described in the capital management section) includes a simpler and less volatile offset due to the liability illiquidity.

The table below sets out NN Group's OFaR for credit spread risk.

OFaR spread risk: Own account

	2015	2014
Credit spread risk assets	4,080	3,982
Credit spread risk liabilities: Effective capital offset from the Volatility Adjustment	-2,807	-2,908
Total Credit Spread risk net of Volatility Adjustment	**1,273**	**1,074**

Despite a decrease in securitisations and non-government debt, spread risk on the assets increased slightly – largely driven by the downgrade of Austria and fewer high-rated government bonds (such as Germany and the Netherlands).

With changes in asset allocation during the year – increased exposure to equity, mortgages and cash – the basis difference (between own account assets and the Volatility Adjustment reference portfolio assets) has increased – thereby leading to a lower effective offset to asset-side spread risk.

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 OFaR 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.

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

The Counterparty Default Risk Exposure is split in Type I and Type II exposures. The class of Type I exposures covers the exposures which may not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The class of Type II exposures attempts to cover the exposures which are usually diversified and where the counterparty is likely to be unrated, predominantly residential mortgages, but also other forms of term lending not covered in Type I. These two classes form the basis for the respective capital treatment in the Counterparty Default Risk module.

Risk profile

Counterparty Default Risk is dominated by Type II assets, accounting for around two-thirds in terms of OFaR. The largest Type II exposure is mortgages (mortgages in NN Bank included in the table are out of scope for CPD as they follow Basel II capital requirements). Type I assets account for around one-third in terms of OFaR. Other sources of Counterparty Default Risk include other loans, reinsurance and the claims on counterparties from over-the-counter derivatives.

Counterparty default risk assets exposure

	2015	2014
Type I[1]		
– Cash (including Money Market Mutual Funds)	7,735	8,234
– Reinsurance	1,205	324
Type II		
– Mortgages	22,340	16,683
– All Other Loans[2]	5,203	4,416

1 Derivatives exposure is also included in the CPD type I calculation. Given Collateral agreements in place, a conservative estimate of 20% of the exposure is included in the Counterparty Default Risk module.
2 All Other Loans consists of government, financial, corporate, policy, and consumer loans.

Notes to the Consolidated annual accounts – continued

NN Group has increased its exposure to Dutch residential mortgages during the course of 2015, both at NN Bank as well as Netherlands Life. The decrease in Cash exposure is mainly at Corporate Level with less cash collateral on derivatives portfolio. The increase in All Other Loans is primarily due to an increase in corporate loan exposure.

Risk mitigation

NN Group uses different credit risk mitigation techniques. For retail lending portfolios, 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 International Swaps and Derivatives Associations master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral. For cash and money market funds, limits per counterparty are put in place.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average loan to indexed value, at Netherlands Life, NN Bank and Netherlands Non-Life stands at 87%, 84% and 91% respectively, due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2014 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 20%, 26% and 25% at Netherlands Life, NN Bank and Netherlands Non-Life respectively at 31 December 2015.

The credit portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid. The increase in non-performing loans is due to portfolio developments and a delayed effect of the economic recession on mortgage paying ability of households. 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 and are subject to impairment review.

Credit quality: NN Group mortgage portfolio, outstanding[1]

	Netherlands Life		NN Bank		NN Non-Life	
	2015	2014	2015	2014	2015	2014
Performing mortgage loans	10,376	8,551	10,391	7,837	294	
Non-performing mortgage loans	170	166	128	125	1	
Total	**10,546**	**8,717**	**10,519**	**7,962**	**295**	**0**

1 Risk figures and – parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Group. The total also does not include EUR 4 million of mortgages held in Spain and Greece – not split/represented in table due to materiality.

Ageing analysis (past due but not impaired): NN Group mortgage portfolio, outstanding

	Netherlands Life		NN Bank		NN Non-Life	
	2015	2014	2015	2014	2015	2014
Past due for 1–30 days	47	133	51	100	1	
Past due for 31–60 days	109	36	99	30	2	
Past due for 61–90 days	42	16	54	14		
Past due for > 90 days	137	84	92	52		
Total	**335**	**269**	**296**	**196**	**3**	**0**

Collateral on mortgage loans

	Netherlands Life		NN Bank		NN Non-Life	
	2015	2014	2015	2014	2015	2014
Balance amount	10,546	8,717	10,519	7,962	295	
Secondary cover value	557	733	802	656		
NHG cover value	1,809	1,560	2,475	1,701	71	
Primary cover indexed market value (topped at LTV 100%)	7,767	6,032	6,798	5,317	224	
Remaining exposure at risk	**413**	**392**	**444**	**288**	**0**	**0**

Notes to the Consolidated annual accounts – continued

Risk measurement
The Counterparty Default module comprises two sub-modules:

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

- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated. The underlying model is based on the Basel regulatory model

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and aggregated using a diversification effect.

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

Despite a significant increase in exposure to mortgages over the course of 2015, OFaR for counterparty default risk decreased from EUR 171 million at year-end 2014 to EUR 113 million at year-end 2015. This decrease is mainly due to an improvement in the data source during 2015. With increased granularity and a different approach on property value assumptions, this data is more representative of actual exposures and has led to an increase in property values – reducing the credit exposure and loss given default.

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 non-Euro entities are consolidated at the level of NN Group and show a risk in regards to 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 Own account portfolio of Netherlands Life. The FX translation risk at the holding level is managed using FX forward contracts.

Risk measurement
No material change in the level of FX translation risk as OFaR for foreign exchange inched EUR 2 million higher to EUR 168 million at year-end 2015.

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 separate account 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. This section refers to separate account business only.

Variable annuity portfolio
Risk profile
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 have been 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 and in some cases out-of-the-money levels. 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 or the account value. During the insured period, the client can receive the maximum of the minimum guaranteed benefit or the account value. Payment occurs either at death or after the specified 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 in Belgium, Italy, Luxembourg, Poland, Spain and Hungary. The products mostly have minimum guaranteed living benefits such as survival benefit or withdrawal benefits.

Notes to the Consolidated annual accounts – continued

Variable annuity business overview (2015)

	Number of policies	Account value[1]	Net amount at risk[2]	IFRS provision for guarantees[3]	Average remaining years
Variable Annuity Japan GMAB	175,733	7,711	142	355	1.9
Variable Annuity Japan GMDB[3]	26,459	2,317	61	160	5.3
Variable Annuity Europe	42,691	1,394	24	42	8.3

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 Excludes other provision adjustments.

Variable annuity business overview (2014)

	Number of policies	Account value[1]	Net amount at risk[2]	IFRS provision for guarantees[3]	Average remaining years
Variable Annuity Japan GMAB	259,969	10,651	65	376	2.2
Variable Annuity Japan GMDB[3]	34,294	2,597	68	179	5.5
Variable Annuity Europe	42,461	1,364	18	48	7.1

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 GMDB reserve reflects the move towards fair value accounting as of 1 January 2015.

Risk mitigation

NN Group has hedging programmes in place for the Japan Closed Block VA business and the European VA business. These hedging programmes 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 underlying funds. 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 2011 through 2015 with regard to the Japan Closed Block VA.

Closed Block VA Japan asset and liability movements

	2015	2014	2013	2012	2011
Change in Value of Policyholder Guarantee	300	745	2,411	1,652	-748
Change in Value of Hedge Assets	-334	-724	-2,367	-1,482	582
Economic Hedge Result	**-34**	**21**	**44**	**170**	**-166**

Separate account guaranteed group pension business in the Netherlands

Risk profile

Separate account guaranteed group pension business in the Netherlands

	2015	2014
Account value	8,630	10,695
Additional IFRS provision for guarantee	584	723

In the Dutch separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their 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.

In principle, the sponsor employer selects the investments based on a basket of equity, fixed income, and real estate instruments 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.

Over the course of 2015, EUR 1.7 billion in account value of the Netherlands Pension business has been transferred from the separate account to the own account. Furthermore, increasing interest rates decreased the value of the fixed income assets as well.

Notes to the Consolidated annual accounts – continued

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

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 – separate account
NN Group determines OFaR for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

The table below sets out the OFaR for the market and credit risk of the separate account businesses as at 2015 and 2014, respectively.

OFaR for the separate account businesses

	2015	2014
Variable annuity	217	356
Separate account guaranteed group pension business in the Netherlands	285	491
Other separate account business (unit-linked)	94	101
Diversification benefit	-344	-539
Total	**252**	**409**

The risk associated with the variable annuity stems mostly from the Japan VA business. Over the course of 2015, the hedge effectiveness ratio gradually increased – effectively reducing the associated risks as depicted in the decrease shown in the table. The guaranteed group pension business in the Netherlands – referred to as GB – also exhibits a decrease in risk due to additional hedging put in place on 31 December in anticipation of equity risks to be incurred in January 2016.

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. NN Group manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Group's businesses can meet immediate obligations.

Risk profile
NN Group identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk is risk that a company will not 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
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

Notes to the Consolidated annual accounts – continued

NN Group 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. The Treasury function at NN Group is responsible for Liquidity Management.

Liquidity limits are in place at various levels of the NN Group and its entities.

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 manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Group's businesses can meet immediate obligations. Accordingly, NN Group does not calculate a specific OFaR for liquidity risk 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 of financial or reputational loss 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 financial or reputational 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 financial or reputational 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 based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of 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 Group conducts regular operational risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. Operational 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.

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 measurement

NN Group's OFaR for operational risk was EUR 172 million and EUR 168 million as at 31 December 2015 and 2014, respectively. The OFaR is calculated based on the standard formula for Solvency II. As it is additive to the modelled OFaR, it should be considered as net of diversification with other NN Group risks.

Notes to the Consolidated annual accounts – continued

Compliance risk

Risk profile

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

Risk mitigation

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 also 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 our values. NN Group also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, conflicts of interest, and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, NN Group designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

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

Risk measurement

There is no specific compliance risk capital calculated for OFaR, however, it is considered to be part of the Operational Risk OFaR.

IFRS net result sensitivity analysis

Following the risk appetite described above, NN Group also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate a 1-in-20 year risk for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

One-year sensitivity descriptions

Interest rate risk	Measured by non-parallel and asymmetric upward and downward 1-in-20 shocks in interest rates. Under IFRS-EU, NN Group values its 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 net result through liability valuations, unless the adequacy of the insurance liabilities of a segment falls below the 50th percentile level. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded at amortised cost. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates.
Equity risk	Measured by the maximum loss between a 31% upward and downward shock in equity prices. Equity shocks can impact IFRS net results due to (among others): impairment losses, fair value accounting, and fee income in unit-link accounts.
FX risk	Measured by the impact of the worse of a 20% upward or downward movement in all currencies compared to the Euro. IFRS net result can be impacted by FX movements in coupons, positions classified as Trading, or the amortised cost part of Assets classified as Available For Sale.
Credit spread risk	Determined using 1-in-20 Value at Risk shocks for marked-to-market individual assets. AAA government bonds are shocked for this sensitivity calculation. IFRS net result can be impacted by changes in spreads in impaired assets, positions classified as Trading, guarantees and/or fees on unit linked/variable annuity.
Counterparty default risk	Determined using 1-in-20 shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market, and Loans, including residential mortgages.
Real estate price risk	This is measured by the impact of an 8% drop in real estate prices only for the minority holdings and for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by a drop in prices.
Variable Annuity risk	Where fair value accounting is used, sensitivities to IFRS net result is based on changes in market value in a 1-in-20 year scenario with loss-absorption of taxes based on IFRS.
Mortality (Including Longevity)	IFRS net result can be impacted by 1-in-20 year insurance risk shocks to the extent that they are within a one-year horizon.
Morbidity	
P&C	

Notes to the Consolidated annual accounts – continued

Sensitivities of IFRS net result

The table below sets out various market and insurance risk impacts of one year 1-in-20 year sensitivities for IFRS net result.

Estimated IFRS net result sensitivities

		2015	2014
Market risk and credit risk	Interest Rate Upward Shock	-102	-4
	Interest Rate Downward Shock	63	0
	Equity –31%	-383	-447
	Equity +31%	82	192
	Real estate –8%	-232	-249
	FX –20%	-107	-32
	Counterparty default	-118	-96
	Variable annuity (Europe and Japan)	-129	-194
Insurance risk	Mortality (including longevity)	-30	-37
	Morbidity	-110	-100
	P&C	-118	-111

As at 31 December 2015, the equity risk primarily relates to the Own 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. Real estate IFRS net result sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS net result.

Due to the differences between IFRS and Solvency II accounting, the IFRS net result has different sensitivities under a 1-in-20 than the Solvency II Own Funds (as measured by OFaR). In general:

- market shocks only flow through to IFRS net result to the extent the underlying asset/liability is market-valued under IFRS and/or impairments would need to be taken
- non-market risks are only impacted by higher claims in one year and not normally by a reassessment of best estimate actuarial assumptions in the provisions as may be the case under Solvency II.

Another source of difference, including volatility in IFRS sensitivities, comes from the hedging programmes for the guaranteed separate account pension business in the Netherlands as the economic risk of the guarantee is the basis for hedging while the IFRS liability has a different valuation. Given the impact of these hedges on IFRS net result and sensitivities, the changes in these sensitivities between 2014 and 2015 are largely driven by the guaranteed separate account pension business in the Netherlands.

51 Capital and liquidity management

Objective

The goal is to adequately capitalise NN Group and its operating entities at all times to meet the interests of our stakeholders, including our customers and shareholders. The balance sheet is managed in line with the capital management framework which is based on regulatory, economic and rating agency requirements. NN Group closely monitors and manages the following metrics: Own Funds/SCR, IGD Solvency I ratio, cash capital at the holding company, financial leverage, fixed cost coverage, capital generation and liquidity.

Governance

The NN Group Corporate Finance department consists of Capital Management and Corporate Treasury. Activities of both departments are executed on the basis of established policies, guidelines and procedures.

Capital Management is responsible for the sufficient capitalisation of NN Group entities, which involves the management, planning and allocation of capital within NN Group. Corporate Treasury is responsible for management and execution of debt capital market transactions, term (capital) funding, cash management and risk management transactions.

Notes to the Consolidated annual accounts – continued

Capital management and framework

The capital framework takes into account regulatory, economic and rating agency requirements.

1. As a first principle, NN Group aims to capitalise its operating units adequately at all times. Operating entities have to comply with the local statutory capital frameworks that are under supervision of local regulators. To ensure adequate capitalisation, they are managed to their commercial capital levels in accordance with the risk associated with the business activities. Capital adequacy is ensured through the capital planning process which starts with the annual budgeting process in which a capital plan is prepared for NN Group and its operating entities. NN Group's risk appetite statements, as further described in the risk management paragraph, drive the target setting and are cascaded down to the operating entities in line with NN Group's risk management strategy. Other important factors which are considered in the capital plan are efficient capital allocation, the cost of capital and capital generation.

   Capital positions of operating units are closely monitored and, if necessary, measures are taken to ensure capital adequacy. At the end of 2015, all business units were capitalised above their local regulatory requirements.

   Because of the transition to a Solvency II regulatory environment per 1 January 2016 for applicable units, capital has been managed during the year with a focus on both the local statutory and Solvency I IGD capital frameworks as well as the Solvency II framework.

2. In addition, cash capital is held at the holding company. The cash capital position is available to cover capital needs of the subsidiaries after a stress event and to cover financial leverage costs and holding company expenses. Stress tests are based on 1 in 20 year scenarios and specific stress tests that might change from time to time. The free cash flow at the holding is an important metric, which is closely monitored and forecasted on a regular basis.

3. NN Group assesses its funding mix via the financial leverage and fixed-cost coverage ratio. Financial leverage measures the amount of debt that NN Group issued to capitalise its operations. Debt used for funding of liquidity needs for the operating companies is not considered financial leverage. At year-end 2015, EUR 200 million was on-lent to NN Bank by way of operational leverage to cover its funding needs. The fixed-cost coverage ratio measures the ability of NN Group to pay its fixed financing expenses and is defined as the earnings before interest and tax of ongoing business (EBIT) adjusted for special items divided by interest before tax on financial leverage.

Liquidity management

NN Group monitors and manages its liquidity risk based on certain severe stress scenarios, thereby following a bottom-up approach. Liquidity ratios are periodically reported and monitored both on an individual entity and on a consolidated basis.

Liquidity ratios indicate whether an entity can withstand a 12-month period of severe liquidity stress without external or NN Group support. Ratios are calculated as: (i) the liquid assets – in some cases subject to a haircut – of an entity divided by (ii) the outflows that it can expect, which includes lapses and market volatility in a severe stress scenario. Liquidity ratios of entities must be sufficient on a stand-alone entity basis. At year-end 2015, all entities report ratios higher than 100%.

Main events 2015

Significant events of 2015 are listed below in chronological order.

In February 2015, ING Group sold 52 million shares of NN Group at a price of EUR 24.00 per share. As part of this transaction, NN Group repurchased approximately 8.3 million shares from ING Group for an aggregate amount of EUR 200 million.

In February 2015, Standard & Poor's raised its rating on NN Group by one notch to A- with a stable outlook. Moody's affirmed its Baa2 rating on NN Group and changed the outlook from negative to stable.

In March 2015, NN Group issued EUR 600 million senior unsecured notes with a fixed rate coupon of 1% per annum and a maturity of seven years. The net proceeds were used to repay a EUR 400 million senior loan to ING Group and EUR 200 million was on-lent to NN Bank by way of operational leverage to cover its funding needs.

In May 2015, ING Group sold 45 million shares of NN Group at a price of EUR 25.46 per share. As part of this transaction, NN Group repurchased approximately 5.9 million shares from ING Group for an aggregate amount of EUR 150 million.

In June 2015, NN Group paid a final dividend related to the second half year of 2014 of EUR 0.57 per ordinary share. To neutralise the dilutive effect of the stock dividend on earnings per share, NN Group repurchased 2,114,271 ordinary shares from ING Group.

In July 2015, NN Group completed the acquisition of the remaining 20% stake in the Polish Pension fund from ING Bank Slaski for an amount of EUR 31 million. Reference is made to Note 45 'Companies and businesses acquired and divested' for more information.

On 7 September 2015, NN Group paid an interim dividend of EUR 0.46 per ordinary share. NN Group repurchased 1,674,470 ordinary shares from ING Group to neutralise the dilutive effect of the stock dividend on earnings per share.

On 30 September 2015, ING Group announced the sale of 40 million shares of NN Group at a price of EUR 25.00 per share which settled on 5 October 2015. As part of this transaction, NN Group repurchased 6 million shares from ING Group for an aggregate amount of EUR 150 million.

Notes to the Consolidated annual accounts – continued

Solvency II

Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU and replaced the former regulatory regime which was based on the EU Solvency I directive as of 1 January 2016.

Under the Solvency II regime, required capital (Solvency Capital Requirement) is risk-based and calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon. Available capital (Own Funds) is determined as the excess of assets over liabilities, both being based on economic valuations, plus qualifying subordinated debt. The EU Solvency II directive requires that (re-)insurance undertakings and groups hold Eligible Own Funds covering the Solvency Capital Requirement.

Regulated entities which from local regulatory perspective are not subject to Solvency II regime (e.g. pension funds, NN Bank, NN Investment Partners and Japan Life) are included in Own Funds based on their local available capital and in SCR based on local required capital.

In December 2015, NN Group received approval from the Dutch regulator (DNB) to use its Partial Internal Model (PIM) under Solvency II for NN Group and its insurance subsidiaries in the Netherlands. The Solvency II capital ratios are still subject to final interpretations of Solvency II regulations including the treatment of tax in the SCR. The Solvency II capital ratios of NN Group and NN Life do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by NN Group's Dutch insurance subsidiaries in the past, as this potential liability cannot be reliably estimated or quantified at this point.

NN Group was adequately capitalised at year-end 2015 with a Solvency II ratio of 239% based on the Partial Internal Model.

Solvency II

		2015
Shareholders' equity		20,469
Elimination of deferred acquisition costs and other intangible assets		-1,000
Valuation differences on assets		1,955
Valuation differences on liabilities, including insurance and investment contracts		-10,689
Deferred tax effect on valuation differences		2,379
Difference in treatment of non-solvency II regulated entities		-870
Excess assets/liabilities		**12,244**
Qualifying subordinated debt		2,921
Foreseeable dividends and distributions		-356
Basic Own Funds		**14,809**
Non-available Own Funds		1,271
Non-eligible Own Funds		197
Eligible Own Funds (a)		**13,341**
– of which Tier 1 unrestricted	8,484	
– of which Tier 1 restricted	1,844	
– of which Tier 2	1,061	
– of which Tier 3	735	
– of which non-solvency II regulated entities	1,217	
Solvency Capital Requirements (b)		**5,587**
– of which non-solvency II regulated entities	684	
NN Group Solvency II ratio (a/b) [1]		**239%**
NN Life Solvency II ratio [1,2]		**216%**

1 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the partial internal model.
2 The NN Life SII ratio reflects the merger of Nationale-Nederlanden Levensverzekeringen Maatschappij N.V. and Nationale-Nederlanden Services N.V. as well as a dividend of EUR 150 million paid to NN Group in March 2016.

Notes to the Consolidated annual accounts – continued

Solvency Capital Requirements based on the Partial Internal Model

Solvency II capital requirements for NN Group are based on the approved partial Internal Model. The group capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements for the Dutch insurance businesses while the Standard Formula is used to calculate capital requirements for operational risk (across the group) and capital requirements for the international businesses that fall under Solvency II, with Japan incorporated based on local capital rules under equivalence.

The choice for a partial internal model is based on the conviction that an Internal Model better reflects the risk profile of the Dutch insurance entities and have additional benefits for risk management purposes, whilst the Standard Formula adequately captures the risk profile of the international businesses:

- An Internal Model approach can better reflect the specific assets and therefore the market risk in the portfolio of NN Life e.g. sovereign and other credit spread risks. In addition the approach to the most significant non-market risks within NN Life such as longevity (trend uncertainty) and expense risk (closed block treatment) can be better tailored to the specific portfolio characteristics.
- An Internal Model approach better reflects the reinsured risks of NN Re. A significant proportion of the NN Re risks are a share of the NN Non-life risks where an Internal Model approach is applied. Variable Annuity risks are not adequately addressed by the Standard Formula. The Internal Model captures the integrated market risks and hedging programmes more accurately.
- In the case of Disability/Morbidity Risks the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands.

The following table shows the NN Group capital requirements at year-end 2015:

NN Group capital requirements

		2015
– market risk (including basis risk and counterparty default risk)	3,988	
– non-market risk	3,687	
– market / non-market risk diversification	-2,105	
BSCR:		5,570
Operational risk		436
NN Re VA Japan Model add-on		57
Loss absorbing capacity of technical provisions		-39
Loss absorbing capacity of deferred taxes		-1,210
Non-modelled Solvency II entities		89
Solvency II entities		**4,903**
Non-solvency II entities		684
NN Group PIM SCR		**5,587**

The Basic Solvency Capital Requirements (BSCR) of the Solvency II entities, totalling EUR 5,570 million, include both the Internal Model business' BSCR (EUR 4,908 million) and the Standard Formula business' BSCR (EUR 845 million). Together, these figures reflect the diversification benefits between the Dutch and International businesses.

Solvency I

At the NN Group level, capital adequacy is reflected by the Insurance Group Directive (IGD). This is a regulatory concept defined as the IFRS-EU shareholders' equity, plus qualifying subordinated debt, adjusted for prudential filters. The Dutch Financial Supervision Act (Wet op het financieel toezicht), in which the IGD Solvency I ratio is implemented under the Dutch law, uses the term 'adjusted solvency'. In this method, the solvency margin is calculated on the basis of the consolidated accounts; it is the difference between:

- the assets eligible for inclusion in the calculation of the solvency margin based on the consolidated data
- the minimum amount of the solvency margin calculated on the basis of the consolidated data

When using this method, any solvency deficit is taken into account, as well as any necessary regulatory adjustments for Dutch insurance subsidiaries (as based on the Dutch Financial Supervision Act).

Solvency I was applied until the end of 2015 and has been replaced by Solvency II as of 1 January 2016 for all applicable units.

Notes to the Consolidated annual accounts – continued

Solvency I capital ratios

	2015	2014
Shareholders' equity	20,469	20,355
Qualifying undated subordinated debt[2]	1,823	1,823
Qualifying dated subordinated debt[2]	1,000	1,000
Required regulatory adjustments	-8,378	-9,100
Total capital base (a)	**14,914**	**14,078**
EU required capital (b)	4,663	4,686
NN Group IGD Solvency I ratio (a/b)[1]	**320%**	**300%**
NN Life Solvency I ratio[1]	**294%**	**257%**

1 The solvency ratios are not final until filed with the regulators. The NN Life Solvency I ratio reflects the merger of Nationale-Nederlanden Levensverzekeringen Maatschappij N.V. and Nationale-Nederlanden Services N.V. The comparative figures have been restated accordingly. The Solvency I ratio of NN Life at the end of 2015 reflects a dividend of EUR 150 million paid to NN Group in March 2016.
2 Subordinated debt included at notional value in the IGD calculation.

The NN Group IGD Solvency I ratio increased from 300% to 320% in 2015 largely due to the net result of EUR 1,565 million offset by capital flows to shareholders of EUR 940 million comprising EUR 500 million share buybacks, a EUR 57 million capital injection by ING Group to fulfil a commitment to the European Commission pertaining the capitalisation of NN Bank, the 2015 interim dividend of EUR 156 million and the proposed 2015 final dividend of EUR 341 million. The final dividend of 2014 was already reflected in the NN Group IGD Solvency I ratio at the end of 2014.

In 2015, the Solvency I ratio of NN Life improved from 257% to 294%, supported mainly by positive revaluations on equity and real estate investments, tightening of credit spreads and operating performance offset by dividends of EUR 565 million, including a dividend of EUR 150 million paid to NN Group in March 2016. The EUR 350 million dividend paid by NN Life in February 2015 was already reflected in its Solvency I ratio at the end of 2014.

Capital generation for subsidiaries is defined as the change of available capital over minimum required capital during the period, excluding capital flows, according to local regulatory capital frameworks applicable in 2015. The available capital and minimum required capital are reflected according to applicable local regulatory capital frameworks.

Capital generation – Solvency I

	2015		2014				Change 2015
	Available Capital	Available over Minimum Required Capital	Available Capital	Available over Minimum Required Capital	Change 2015	Of which capital flows [1]	Capital Generation
Total of subsidiaries	13,988	9,090	13,480	8,668	422	-1,376	1,798
of which NN Life [2]	8,848	5,886	8,164	5,127	759	-805	1,564

Note: Figures are not final until filed with the regulators.
1 Capital flows reflect capital injections (including subordinated loans) net of dividends (including interest on subordinated loans) for all subsidiaries.
2 The Solvency I ratio of NN Life reflects the merger of Nationale-Nederlanden Levensverzekeringen Maatschappij N.V. and Nationale-Nederlanden Services N.V. The comparative figure from 31 December 2014 has been restated accordingly and the available capital at 31 December 2014 is before the deduction of the EUR 350 million dividend paid by NN Life to NN Group in February 2015. The available capital at 31 December 2015 is before the deduction of the EUR 150 million dividend paid by NN Life to NN Group in March 2016.

Over the full-year 2015 the capital generated by subsidiaries was EUR 1,798 million mainly supported by positive revaluations of equity and real estate investments as well as tightening of credit spreads in combination with positive operating performance offset by investment in new business.

Notes to the Consolidated annual accounts – continued

Cash capital position at the holding company

NN Group holds a cash capital position in the holding company to cover stress events and to fund holding company expenses and interest expenses. Another important related metric is the free cash flow at the holding which is defined as the change in the cash capital position at the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

Cash capital position at the holding company

		2015
Cash capital position at the holding company – Opening balance		1,413
– cash divestment proceeds	1	
– dividends from subsidiaries[1]	1,548	
– capital injections into subsidiaries[2]	-143	
– other[3]	-40	
Free cash flow at the holding:[4]		1,366
Acquisitions		-31
Capital flows from/to shareholders		-792
Increase/decrease in debt and loans		-3
Cash capital position at the holding company – Closing balance		**1,953**

Note: cash capital is defined as net current assets available at the holding company.
1 Includes interest on subordinated loans provided to subsidiaries by the holding company.
2 Includes the change of subordinated loans provided to subsidiaries by the holding company.
3 Includes interest on subordinated loans and debt, holding company expenses and other cash flows.
4 Free cash flow to the holding company is defined as the change in cash capital position of the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

The cash capital position at the holding company increased to EUR 1,953 million from EUR 1,413 million at the beginning of the year. The increase reflects free cash flow to the holding of EUR 1,366 million driven by dividends from all business segments, partly offset by EUR 792 million of net capital flows to shareholders primarily comprising ordinary dividend payments of EUR 349 million and share buy-backs of EUR 500 million.

Cash capital is held at the holding company to cover stress events and to fund holding costs. It is NN Group's aim for the cash capital position at the holding company to be in a target range between EUR 0.5 billion and EUR 1.5 billion. Taking into account the share buyback of EUR 250 million executed in January 2016 and the proposed final 2015 dividend of EUR 341 million, the cash capital position at the end of 2015 would be EUR 1,363 million on a pro-forma basis.

Financial leverage

The financial leverage and fixed-cost coverage ratio are managed in accordance with a single A financial strength rating.

Financial leverage

	2015	2014
Shareholders' equity	20,469	20,355
Revaluation reserve debt securities	-7,792	-9,044
Revaluation reserve crediting to life policyholders	4,885	5,529
Revaluation reserve cash flow hedge	-4,029	-4,464
Goodwill	-260	-265
Minority interests	9	76
Capital base for financial leverage (a)	**13,283**	**12,187**
– undated subordinated notes[1]	986	986
– subordinated debt	2,290	2,297
Total subordinated debt:	3,276	3,282
Debt securities issued (financial leverage)	398	400
Financial leverage (b)	**3,674**	**3,682**
Debt securities issued (operational leverage)	199	
Total debt	**3,873**	**3,682**
Financial leverage ratio (b/(a+b))	21.7%	23.2%
Fixed-cost coverage ratio[1, 2]	13.1x	9.9x

1 The undated subordinated notes classified as equity are considered financial leverage in the calculation of the financial leverage ratio. The related interest is included on an accrual basis in the calculation of the fixed-cost coverage ratio.
2 Measures the ability of earnings before interest and tax (EBIT) of ongoing business and Insurance Other to cover funding costs on financial leverage.

Notes to the Consolidated annual accounts – continued

The financial leverage ratio of NN Group improved to 21.7% at year-end 2015. The capital base for financial leverage increased by EUR 1,096 million, largely driven by the 2015 net result of EUR 1,565 million partly offset by capital flows with shareholders of EUR 792 million.

The fixed-cost coverage ratio improved to 13.1x at the end of 2015 versus 9.9x at the end of 2014, mainly due to increased result before tax.

Proposed 2015 final dividend

At the Annual General Meeting on 2 June 2016, a final dividend will be proposed of EUR 1.05 per ordinary share, or approximately EUR 341 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2015 interim dividend of EUR 0.46 per ordinary share paid in September 2015, NN Group's total dividend over 2015 will be EUR 1.51 per ordinary share which is equivalent to a dividend pay-out ratio of around 41% of NN Group's full-year 2015 net operating result of the ongoing business. The final dividend will be paid in cash or ordinary shares at the election of the shareholder. NN Group will neutralise the dilutive effect of the stock dividend through the repurchase of ordinary shares, which may include a repurchase of part of ING Group's shareholding in NN Group. If the proposed dividend is approved by the shareholders, NN Group ordinary shares will be quoted ex-dividend on 7 June 2016. The record date for the dividend will be 8 June 2016. The election period will run from 7 June up to and including 21 June 2016. The stock fraction for the stock dividend will be based on the volume weighted average price of NN Group ordinary shares on Euronext Amsterdam for the five trading days from 15 June through 21 June 2016. The dividend will be payable on 28 June 2016.

Going forward, and barring unforeseen circumstances, NN Group intends to pay ordinary dividends on a semi-annual basis. In line with NN Group's stated dividend policy, capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value creating corporate opportunities. NN Group is committed to distributing excess capital in a form which is most appropriate and efficient for shareholders at that specific point in time, such as special dividends or share buy backs which may include a repurchase of part of ING Group's shareholding in NN Group.

Share capital

On 30 December 2015, 7,674,470 NN Group treasury shares were cancelled which were acquired as part of the sale of NN Group shares by ING Group announced in September 2015 and the neutralisation of the dilutive effect of the stock dividend relating to the 2015 interim dividend in September 2015.

On 22 March 2016, the total number of NN Group shares outstanding (net of treasury shares) was 324,533,380.

Credit ratings

On 30 September 2015, Standard & Poor's affirmed its A- rating on NN Group with a stable outlook. Moody's affirmed its Baa2 rating on NN Group with a stable outlook on 17 December 2015.

Credit ratings on NN Group N.V. at 22 March 2016

	Rating	Outlook
Standard & Poor's	A-	Stable
Moody's	Baa2	Stable

Authorisation of Consolidated annual accounts

The Consolidated annual accounts of NN Group N.V. for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Executive Board on 22 March 2016. The Executive Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Consolidated annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Consolidated accounts, propose amendments and then adopt the Consolidated annual accounts after a normal due process.

The Hague, 22 March 2016

The Supervisory Board

J.H. (Jan) Holsboer, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
Y.C.M.T. (Yvonne) van Rooij
J.W. (Hans) Schoen
H.M. (Hélène) Vletter-van Dort

The Executive Board

E. (Lard) Friese, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Parent company balance sheet

Amounts in millions of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result

	notes	2015	2014
Assets			
Investments in group companies	2	20,882	21,170
Other assets	3	4,774	4,345
Total assets		**25,656**	**25,515**
Equity	4		
Share capital		40	42
Share premium		12,153	12,098
Share of associates reserve		8,546	9,008
Retained earnings		-1,835	-1,381
Unappropriated result		1,565	588
Shareholders' equity		**20,469**	**20,355**
Undated subordinated notes	4	986	986
Total equity		**21,455**	**21,341**
Liabilities			
Subordinated debt	5	2,290	2,297
Other liabilities	6	1,911	1,877
Total liabilities		**4,201**	**4,174**
Total equity and liabilities		**25,656**	**25,515**

References relate to the notes starting on page 153. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Parent company profit and loss account

For the year ended 31 December

	2015	2014
Result of group companies	1,669	754
Other results after tax	-104	-166
Net result	**1,565**	**588**

Parent company statement of changes in equity

Parent company statement of changes in equity (2015)

	Share capital	Share premium	Share of associate reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance as at 1 January 2015	**42**	**12,098**	**9,008**	**-793**	**20,355**	**986**	**21,341**
Unrealised revaluations Available-for-sale investments and other			-639	-69	-708		-708
Realised gains/losses transferred to the profit and loss account			-345		-345		-345
Changes in cash flow hedge reserve			-435		-435		-435
Deferred interest credited to policyholders			644		644		644
Share of other comprehensive income of associates and joint ventures			9		9		9
Exchange rate differences			188		188		188
Remeasurement of the net defined benefit asset/liability			28		28		28
Unrealised revaluations property in own use			-3		-3		-3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-553**	**-69**	**-622**	**0**	**-622**
Net result for the period				1,565	1,565		1,565
Total comprehensive income	**0**	**0**	**-553**	**1,496**	**943**	**0**	**943**
Changes in share capital	-2	-2		4	0		0
Transfers to/from associates			91	-91	0		0
Capital contribution		57			57		57
Dividend				-251	-251		-251
Purchase/sale of treasury shares				-597	-597		-597
Employee stock option and share plans				5	5		5
Coupon on undated subordinated notes				-34	-34		-34
Changes in composition of the group and other changes				-9	-9		-9
Balance as at 31 December 2015	**40**	**12,153**	**8,546**	**-270**	**20,469**	**986**	**21,455**

1 Other reserves includes Retained earnings and Unappropriated result.

Parent company statement of changes in equity – continued

Parent company statement of changes in equity (2014)

	Share capital	Share premium	Share of associate reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance as at 1 January 2014	**0**	**11,605**	**3,068**	**-611**	**14,062**	**0**	**14,062**
Unrealised revaluations Available-for-sale investments and other			6,302	-44	6,258		6,258
Realised gains/losses transferred to the profit and loss account			1		1		1
Changes in cash flow hedge reserve			1,738		1,738		1,738
Deferred interest credited to policyholders			-2,950		-2,950		-2,950
Share of other comprehensive income of associates and joint ventures			43		43		43
Exchange rate differences			117		117		117
Remeasurement of the net defined benefit asset/liability			-121		-121		-121
Unrealised revaluations property in own use			1		1		1
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**5,131**	**-44**	**5,087**	**0**	**5,087**
Net result for the period				588	588		588
Total comprehensive income	**0**	**0**	**5,131**	**544**	**5,675**	**0**	**5,675**
Issuance of undated subordinated notes					0	986	986
Changes in share capital	42	-42			0		0
Transfers to/from associates			809	-809	0		0
Capital contribution		850			850		850
Dividend		-315			-315		-315
Employee stock option and share plans				12	12		12
Changes in composition of the group and other changes				71	71		71
Balance as at 31 December 2014	**42**	**12,098**	**9,008**	**-793**	**20,355**	**986**	**21,341**

1 Other reserves includes Retained earnings and Unappropriated result.

Notes to the Parent company annual accounts

1 Accounting policies for the Parent company annual accounts

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 Associates and joint ventures 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 Article 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Article 379 (1), Book 2 of the Dutch Civil Code has been filed with the Commercial Register of the Chamber of Commerce in Amsterdam in accordance with Article 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 Shareholders' 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.

2 Investments in group companies

Investments in group companies

	Interest held 2015	Balance sheet value 2015	Interest held 2014	Balance sheet value 2014
NN Insurance Eurasia N.V.	100%	20,731	100%	21,041
NN Insurance International B.V.	100%	136	100%	113
Other	100%	15	100%	16
Investments in group companies		**20,882**		**21,170**

Changes in investments in group companies

	2015	2014
Changes in investments in group companies – Opening balance	21,170	18,393
Revaluations	-589	5,185
Result of group companies	1,669	754
Capital contribution	77	29
Dividend	-1,445	-3,191
Changes in investments in group companies – Closing balance	**20,882**	**21,170**

3 Other assets

Other assets

	2015	2014
Receivables from group companies	1,557	2,029
Cash and other receivables	3,217	2,316
Other assets	**4,774**	**4,345**

As at 31 December 2015, an amount of EUR 1,719 million (2014: EUR 1,489 million) is expected to be settled after more than one year from the balance sheet date.

Notes to the Parent company annual accounts – continued

4 Equity

Equity

	2015	2014
Share capital	40	42
Share premium	12,153	12,098
Share of associates reserve	8,546	9,008
Retained earnings and unappropriated result	-270	-793
Shareholders' equity	**20,469**	**20,355**
Undated subordinated notes	986	986
Total equity	**21,455**	**21,341**

As at 31 December 2015, share premium includes an amount of EUR 6,085 million (2014: EUR 6,085 million) exempt from Dutch withholding tax.

Share capital

			Ordinary shares	
	Shares (in number)		Amount in millions of euros	
	2015	2014	2015	2014
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	366,447,128	349,982,846	44	42
Issued share capital	**333,552,872**	**350,017,154**	**40**	**42**

For details on the changes in share capital, share premium and warrants, reference is made to Note 12 'Equity' in the Consolidated annual accounts.

Changes in Retained earnings and unappropriated result (2015)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – Opening balance	-1,381	588	-793
Net result for the period		1,565	1,565
Unrealised revaluations	-69		-69
Transfers to/from share of associates reserve	-91		-91
Transfers to/from retained earnings	588	-588	0
Dividend	-251		-251
Purchase/sale of treasury shares	-597		-597
Employee stock option and share plans	5		5
Coupon on undated subordinated notes	-34		-34
Changes in the composition of the group and other changes	-5		-5
Retained earnings and unappropriated result – Closing balance	**-1,835**	**1,565**	**-270**

Notes to the Parent company annual accounts – continued

Changes in Retained earnings and unappropriated result (2014)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – Opening balance	-933	322	-611
Net result for the period		588	588
Unrealised revaluations	-44		-44
Transfer to Share of associates reserve	-809		-809
Transfer to Retained earnings	322	-322	0
Employee stock option and share plans	12		12
Changes in the composition of the group and other changes	71		71
Retained earnings and unappropriated result – Closing balance	**-1,381**	**588**	**-793**

The total amount of Equity in the Parent company annual accounts equals Shareholders' 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
- Remeasurement of the net defined benefit asset/liability within consolidated group companies presented in the Net defined benefit asset/liability remeasurement reserve in the Consolidated accounts, are presented in the Share of associates reserve in the Parent company accounts
- Non-distributable retained earnings of associates presented in Other reserves in the Consolidated accounts, are presented in the Share of associates reserve in the Parent company accounts
- Revaluations on Real estate investments, capitalised Software 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

Share of associates reserve

	2015	2014
Unrealised revaluations within consolidated group companies	8,321	9,103
Currency translation reserve	-24	-198
Net defined benefit asset/liability remeasurement reserve	-90	-118
Reserve for non-distributable retained earnings of associates	313	221
Revaluations on investment property and certain participations recognised in income	26	
Share of associates reserve	**8,546**	**9,008**

Positive components of the Share of associate reserve of EUR 8,660 million (2014: EUR 9,324 million) 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 Share of associates reserve.

Distributable reserves

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

In addition, NN Group's ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. NN Group is legally required to create a non-distributable reserve insofar profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions. Such restrictions may, among others, be of a similar nature as the restrictions which apply to NN Group.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Group's subsidiaries, associates and joint ventures are as follows:

Notes to the Parent company annual accounts – continued

Distributable reserves based on the Dutch Civil Code

	2015	2015	2014	2014
Total shareholders' equity		20,469		20,355
Share capital	40		42	
Positive components of Share of associates reserve	8,660		9,324	
Total non-distributable part of shareholders' equity		**8,700**		**9,366**
Distributable reserves based on the Dutch Civil Code		**11,769**		**10,989**

The Dutch supervisory rules and regulations stemming from the Dutch Financial Supervision Act (Wet op het financieel toezicht) provide a second restriction on the possibility to distribute dividends. Total freely distributable reserves is the minimum of Freely distributable capital on the basis of solvency requirements and Freely distributable capital on the basis of capital protection.

Freely distributable reserves

	2015	2015	2014	2014
Solvency requirement under the Financial Supervision Act	4,663		4,686	
Reserves available for financial supervision purposes	14,914		14,078	
Total freely distributable reserves on the basis of solvency requirements		10,251		9,392
Total freely distributable reserves on the basis of the Dutch Civil Code		11,769		10,989
Total freely distributable reserves (lowest of the above values)		**10,251**		**9,392**

Reference is made to Note 51 'Capital and liquidity management' for more information on solvency requirements.

Other restrictions

There are other restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to NN Group as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the group companies operate. Reference is made to Note 51 'Capital and liquidity management' in the Consolidated Annual Accounts for the minimum capital requirements.

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to NN Group there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group's subsidiaries, associates and joint ventures. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by NN Group, no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, NN Group is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of NN Group's Articles of Association whereby the ordinary shares are written down. Pursuant to the Dutch Civil Code, capital may only be repaid if none of NN Group's creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Undated subordinated notes

In July 2014, NN Group N.V. issued Fixed to Floating Rate Undated subordinated notes with a par value of EUR 1 billion. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.50% per annum for the first 11.5 years and will be floating thereafter. As these notes are undated and include optional deferral of interest at the discretion of NN Group, these are classified under IFRS as equity. Coupon payments are deducted from equity if and when paid or contractually due. The discount to the par value and certain issue costs were deducted from equity at issue, resulting in a balance sheet value equal to the net proceeds of EUR 986 million.

Notes to the Parent company annual accounts – continued

5 Subordinated debt

Subordinated debt

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance sheet value	
				2015	2014	2015	2014
4.625%	2014	8-Apr-44	8-Apr-24	1,000	1,000	986	985
Variable	2007	Perpetual	15-Jan-16	506	506	506	506
Variable	2005	Perpetual	8-Mar-16	169	169	169	171
Variable	2005	Perpetual	15-Jan-16	148	148	148	148
6.375%	2002	7-May-27	7-May-17	476	476	481	487
Subordinated debt						**2,290**	**2,297**

All Subordinated debt is euro denominated.

6 Other liabilities

Other liabilities

	2015	2014
Debt securities issued	597	
Amounts owed to group and parent companies	1,238	1,800
Other amounts owed and accrued liabilities	76	77
Other liabilities	**1,911**	**1,877**

Amounts owed to group and parent companies by remaining term

	2015	2014
Within 1 year	1,238	1,800
Amounts owed to group and parent companies	**1,238**	**1,800**

7 Other

NN Group N.V. has issued statements of liability in connection with Article 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for group companies.

Reference is made to the Consolidated annual accounts for the number of employees, audit fees and remuneration of the Executive Board, the Management Board and the Supervisory Board.

Authorisation of Parent company annual accounts

The Parent company annual accounts of NN Group N.V. for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Executive Board on 22 March 2016. The Executive Board may decide to amend the Parent company annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Parent company annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Parent company accounts, propose amendments and then adopt the Parent company annual accounts after a normal due process.

The Hague, 22 March 2016

The Supervisory Board

J.H. (Jan) Holsboer, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
Y.C.M.T. (Yvonne) van Rooij
J.W. (Hans) Schoen
H.M. (Hélène) Vletter-van Dort

The Executive Board

E. (Lard) Friese, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Independent auditor's report

To: the Shareholders and Supervisory Board of NN Group N.V.

Report on the audit of the 2015 annual accounts

Our opinion
We have audited the accompanying 2015 annual accounts of NN Group N.V., based in Amsterdam ('NN Group' or 'the Company') as set out on pages 37 to 158. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

In our opinion:

- The consolidated annual accounts give a true and fair view of the financial position of NN Group as at 31 December 2015 and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.
- The parent company annual accounts give a true and fair view of the financial position of NN Group as at 31 December 2015 and of its result for 2015 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated annual accounts comprise:

- The following statements for 2015: the consolidated balance sheet as at 31 December 2015, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

- The parent company balance sheet as at 31 December 2015, the parent company profit and loss account, and the parent company statement of changes in equity for 2015.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

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

We are independent of NN Group in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Materiality

Planning Materiality	€120 million
Benchmark used	1% of NN Group's Shareholders' equity, excluding revaluation reserves
Rationale for the benchmark applied	NN Group's equity and solvency, and the ability to pay dividends and meet policyholder liabilities, are key indicators for the users of its financial statements. As such, we have based materiality on NN Group's Shareholders' equity, adjusted for the revaluation reserve. The revaluation reserve can fluctuate significantly based on changes in interest rates and spreads; it has therefore been excluded.

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

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 6 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

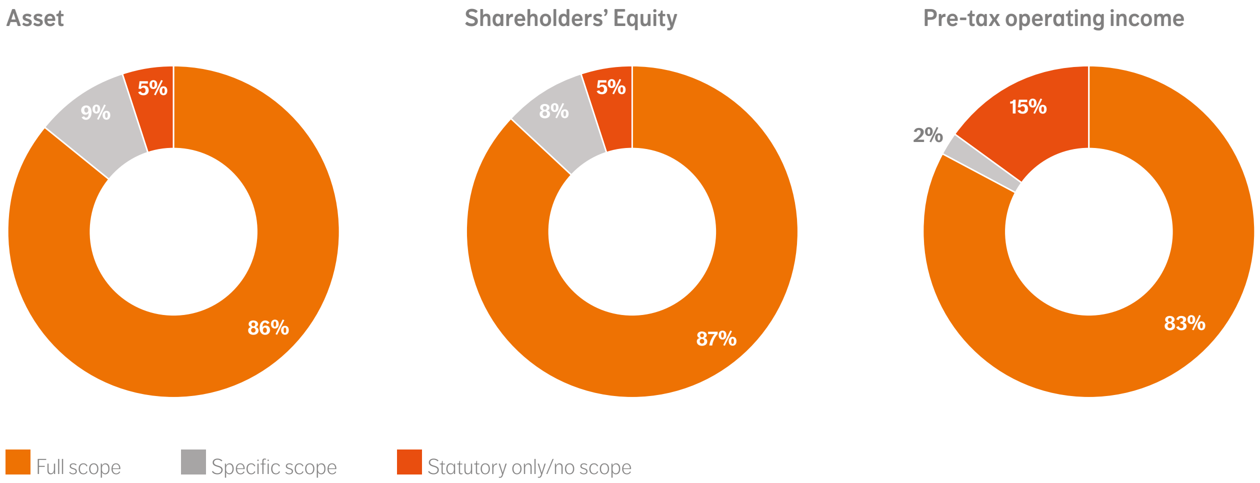
Independent auditor's report – continued

Scope of the group audit

NN Group is at the head of a group of entities, and these entities are structured into seven segments: Netherlands Life, Netherlands Non-life, Insurance Europe, Japan Life, Investment Management, Other and Japan Closed Block VA, each comprising of multiple reporting units. The financial information of this group is included in the consolidated annual accounts of NN Group.

We are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the reporting units based on their size and or the risk profile.

Following our assessment of the risk of material misstatement to NN Group's annual accounts, we have selected 18 reporting units among the seven segments which represent the principal business units within NN Group's reportable segments and account for approximately 95% of NN Group's total assets, approximately 95% of equity and approximately 85% of NN Group's profit before tax.



In total, 7 reporting units required an audit of the complete financial information, either due to their overall size or risk profile. Specific audit procedures on certain balances and transactions were performed for 11 reporting units. We have used the work of other EY auditors when auditing these reporting units in and outside the Netherlands.

The NN Group audit team provided detailed instructions to each component team to serve as the basis for audit procedures to be performed, which included areas of audit emphasis. We also executed oversight visits to select component teams and engaged in regular communication that has been designed to confirm that the audit progress and findings for each of the in-scope locations were discussed between the NN Group audit team and the component team. By performing the procedures mentioned above at group entities, together with additional procedures at NN Group level, we have been able to obtain sufficient and appropriate audit evidence regarding NN Group's financial information as a whole to provide a basis for our opinion on the consolidated annual accounts.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report – continued

Key audit matter	Our audit response
Estimates used in calculation of insurance contract liabilities and Reserve Adequacy Test (RAT)	
NN Group has insurance and investment contract liabilities of €116 billion representing 82% of its total liabilities, of which €113 billion relates to insurance contracts. The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including those for guarantees provided to policyholders. Various economic and non-economic assumptions are being used to estimate these long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the reserve adequacy tests. The insurance liabilities of NN Group's reporting units are calculated based on a prudent prospective actuarial method. The specific methodologies applied may differ between reporting units. For traditional business, assumptions are initially set at the policy issue date. For other investment type products, assumptions are based on management's best estimate at the reporting date. The Group's IFRS reserve adequacy test is performed in order to confirm that insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of expected future cash outflows. The Netherlands Life reserve adequacy test in respect of the individual life and group pension business requires the application of significant judgement in the setting of the longevity, expense and reinvestment rate assumptions. Further, the valuation of guarantees in the Japan Closed Block Variable Annuity business involves exercising judgement on policyholder behaviour and expense assumptions in response to developments in financial markets, and the run off of the portfolio.	We involved internal actuarial specialists in performing the audit procedures in this area, which included among others: • Assessing the appropriateness of assumptions used in the valuation of the Netherlands' individual life and pension contracts by reference to company and industry data and expectations of investment returns, future longevity and expense developments. • Assessing the appropriateness of the non-economic assumptions used in the valuation of Japan Closed Block variable annuity guarantees in relation to lapse or extension assumptions by reference to company specific and industry data. Further key audit procedures included assessing the Group's methodology for calculating the insurance liabilities, assessing the changes in the company's approach to reserve adequacy testing and an assessment of internal controls in this respect, including the analyses of the movements in insurance contracts liabilities and reserve adequacy surplus per segment during the year. We assessed whether the movements are in line with the changes in assumptions adopted by NN Group, our understanding of developments in the business and our expectations derived from market experience. We considered whether NN Group's disclosures in the annual accounts in relation to insurance contract liabilities in note 16 and liability adequacy test results in note 32 comply with the relevant accounting requirements.
Fair value measurement of investments and related disclosures	
NN Group invests in various asset classes, of which 98% is carried at fair value in the balance sheet. Fair value measurement can be subjective, and more so for areas of the market reliant on model based valuation or with weak liquidity. Valuation techniques for real estate, private equity investments and for non-listed bonds, equities and derivatives involve setting various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Associated risk management disclosure is complex and dependent on high quality data. Specific areas of focus include the valuation of fair value Level 2 assets, and Level 3 assets where valuation techniques are applied in which unobservable inputs are used.	We assessed and tested the design and operating effectiveness of the controls over valuation, independent price verification and model approval. We performed additional procedures for areas of higher risk and estimation, involving our valuation specialists. This included, where relevant, comparison of judgements made to current and emerging market practice and re-performance of valuations on a sample basis. We also assessed the impact of other sources of fair value information including gains or losses on disposal. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures in notes 35 and 36.
Solvency	
In the Capital and liquidity management section of the annual accounts included in note 51, NN Group provides disclosures on its capital position in accordance with Solvency I, which was effective as at 31 December 2015, and the new supervisory regime Solvency II, which has come into force on 1 January 2016. The Solvency II calculations are based on NN Group's partial internal model, which was approved by supervisor DNB in December 2015. As disclosed in the Capital and liquidity management paragraph in section Solvency II, there are uncertainties in the final interpretation of the Solvency II requirements, most notably with respect to the loss absorbing capacity of deferred taxes in the calculation of the Solvency Capital Requirement. Further, in the calculation of the Solvency II ratio, NN has not provided for the contingent liability in respect of the unit-linked issue in the Netherlands as no reliable estimate can be made of the outcome at this moment. Changes to the interpretation of the Solvency II requirements of the loss absorbing capacity of deferred taxes and the accounting for contingent liability for the unit linked issue can materially impact the Solvency II ratio disclosed.	We involved internal regulatory, tax and actuarial specialists in performing our audit procedures in this area, which included among others consideration of the methodology applied and assessment of the models used, the scenarios and economic and non-economic assumptions applied, risk margins added and the diversification benefits calculated. As part of our audit procedures, we have assessed the design and operating effectiveness of the internal controls over the solvency calculations, including NN Group's methodology, model and assumption approval processes and management review controls. Also, where relevant, comparison of judgements was made to current and emerging market practice and re-performance of calculations on a sample basis. We considered whether NN Group's disclosures in note 51 comply with the relevant accounting requirements.

Independent auditor's report – continued

Key audit matter	Our audit response
Reliability and continuity of electronic data processing	
NN Group is highly dependent on its IT infrastructure for the continuity of the operations. NN Group continues to invest in its IT infrastructure and processes to meet clients' needs and business requirements. The Group is continuously improving the efficiency and effectiveness of its IT infrastructure and the reliability and continuity of the electronic data processing, including its defence against cyber-attacks. An area of attention is the ongoing development of IT systems and processes to meet regulatory reporting requirements under Solvency II.	As part of our audit procedures we have assessed the changes in the IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the annual accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting.
Unit-linked exposure	
Holders of the NN Group unit-linked products sold in the Netherlands (where the customer bears all or part of the investment risk), or consumer protection organisations on their behalf, have filed claims or initiated proceedings against the Group and may continue to do so. A negative outcome of such claims and proceedings in respect of unit-linked products, settlements or any other actions for the benefit of customers by other insurers and sector-wide measures could result in substantial losses for the Group relating to compensation. The financial consequences of these legal proceedings cannot be reliably estimated or quantified at this point. Refer to note 44 of the annual accounts.	We involved our own specialists in performing the audit procedures in this area, which included: • An assessment of NN Group's governance, processes and internal controls with respect to unit-linked exposures within its operating companies, in particular for NN Life in the Netherlands • A review of the documentation and a discussion about the unit-linked exposures with management and its internal and external legal advisors • A detailed consideration of the recognition and measurement requirements to establish provisions under NN Group's accounting framework. We also considered whether the Group's disclosure in respect of this legal exposure is compliant with the relevant accounting requirements. We focused on the adequacy of disclosure of the related risks and assumptions in note 44 to the annual accounts.

Responsibilities of the Executive Board and the Supervisory Board for the annual accounts

The Executive Board is responsible for the preparation and fair presentation of the annual accounts in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the annual accounts using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the annual accounts

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included, among others:

- Identifying and assessing the risks of material misstatement of the annual accounts, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent auditor's report – continued

- Concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures.
- Evaluating whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Report on other legal and regulatory requirements

Report of the Executive Board and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Report of the Executive Board and other information):

- We have no deficiencies to report as a result of our examination whether the Report of the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed
- We report that the Report of the Executive Board, to the extent we can assess, is consistent with the annual accounts

Engagement

We have been the external auditor of NN Group and its predecessors for many years, and were reappointed as external auditor of the 2015 annual accounts at the NN Group N.V. General Meeting held on 28 May 2015. We will mandatorily rotate off of the NN Group audit for purpose of the 2016 annual accounts in accordance with Dutch law.

Amsterdam, 22 March 2016
Ernst & Young Accountants LLP

Signed by J.G. Kolsters

Proposed appropriation of result

The result is appropriated pursuant to Article 34 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 of Shareholders, having heard the advice of the Executive Board. It is proposed to add the 2015 net result of EUR 1,565 million minus the (interim and final) cash dividends to the Retained earnings.

Interim dividend 2015

In September 2015 NN Group paid a 2015 interim dividend of EUR 0.46 per ordinary share, which reflects a total amount of EUR 156 million. The 2015 interim dividend was paid on 7 September 2015 either in cash or in ordinary shares at the election of the shareholders. As a result, an amount of EUR 111 million was distributed out of Other reserves (cash dividend) and 1.7 million ordinary shares, with a par value of EUR 0.12 per share and a volume weighted average share price of EUR 26.78 were issued (stock dividend).

Proposed final dividend 2015

In addition to the interim dividend paid in September 2015, NN Group proposes a final dividend of EUR 1.05 per ordinary share, or EUR 341 million in total based on the number of outstanding shares at the date of this Financial Report (net of treasury shares). The proposal is to pay the final dividend either in cash or in ordinary shares at the election of the shareholders. The cash dividend will be distributed out of Other reserves.

Coupon payments undated subordinated notes

In 2015, Coupon payments on the undated subordinated notes of EUR 34 million have been distributed out of Other reserves.

Subsequent events

In January 2016, NN Group repurchased 8 million ordinary shares from ING Groep N.V. at a price of EUR 31.00 per share for an aggregate amount of EUR 250 million.

Contact and legal information

This report is available as a pdf file on
www.nn-group.com/annual-report

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For further information on NN Group's strategy, policies and performance, visit www.nn-group.com

We welcome input from our stakeholders. If you would like to provide us with feedback, please feel free to contact us via external.communications@nn-group.com

Disclaimer
NN Group's 2015 Annual Report consists of three documents: the 2015 Annual Review, the 2015 Financial Report and the 2015 Sustainability Supplement.

Certain of the statements in this 2015 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 the EC Restructuring Plan, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Group's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

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NN Group's 2015 Sustainability Supplement provides additional information with regards to our strategy, objectives and achievements related to the social, ethical and environmental aspects of our businesses. It is especially aimed at shareholders, rating agencies and NGOs. Nothing in this document is intended to extend or amend NN Group's existing obligations to our clients, shareholders or other stakeholders. All NN Group policies, procedures, guidelines, statements or anything similar that have been mentioned in the Sustainability Supplement are intended for internal guidance purposes only and are not intended to be relied upon by any third party.