NN Group N.V. Annual Report 2013

ING

NN Group N.V.
2013 Annual Report

NN	NN Group N.V., formerly called ING Insurance Topholding N.V., merged with ING Verzekeringen N.V. effective as of 1 March 2014. As a result the legal entity ING Verzekeringen N.V. ceased to exist and NN Group N.V. became the legal successor of ING Verzekeringen N.V. as the holding company of the European and Japanese insurance and investment management operations. In this Annual Report, NN Group will be used to indicate these operations.

Contents

Management

COMPOSITION OF THE BOARDS

From 1 March 2014 onwards (as part of the legal merger between ING Insurance Topholding N.V. and ING Verzekeringen N.V. (whereby ING Verzekeringen N.V. ceased to exist and ING Insurance Topholding N.V. was renamed NN Group N.V.) all members of the Management Board of ING Verzekeringen N.V. have been appointed as members of the Management Board of NN Group N.V. and all members of the Supervisory Board of ING Verzekeringen N.V. have been appointed members of the Supervisory Board of NN Group N.V. The composition of the Management Board and the Supervisory Board of NN Group currently is, and the composition of the Management Board and the Supervisory Board of ING Verzekeringen N.V. as at 31 December 2013 was, as follows.

MANAGEMENT BOARD NN GROUP N.V.
Composition on 1 March 2014
MANAGEMENT BOARD ING VERZEKERINGEN N.V.
Composition on 31 December 2013

R.A.J.G. (Ralph) Hamers (47), CEO and chairman
E. (Lard) Friese (51), vice-chairman
D. (Delfin) Rueda (49), chief financial officer
S.D. (Doug) Caldwell (44), chief risk officer
P.G. (Patrick) Flynn (53)
W.F. (Wilfred) Nagel (57)
D.E. (Dorothee) van Vredenburch (49)

SUPERVISORY BOARD NN GROUP N.V.
Composition on 1 March 2014
SUPERVISORY BOARD ING VERZEKERINGEN N.V.
Composition on 31 December 2013

J. (Jeroen) van der Veer (66), chairman
P.A.F.W. (Peter) Elverding (65), vice-chairman
J.P. (Tineke) Bahlmann (63)
H.W. (Henk) Breukink (63)
I. (Isabel) Martín Castellá (66)
C.W. (Carin) Gorter (51)
J.H. (Jan) Holsboer (67)
H.J.M. (Hermann-Josef) Lamberti (57)
J.C.L. (Joost) Kuiper (66)
R.W.P. (Robert) Reibestein (57)
Y.C.M.T. (Yvonne) Van Rooy (62)
L.A.C.P. (Luc) Vandewalle (69)

COMMITTEES OF THE SUPERVISORY BOARD NN GROUP N.V. (1)
Composition on 1 March 2014
COMMITTEES OF THE SUPERVISORY BOARD ING VERZEKERINGEN N.V. (1)
Composition on 31 December 2013

Audit Committee
J.C.L. (Joost) Kuiper, chairman
J.P. (Tineke) Bahlmann
I. (Isabel) Martín Castellá
C.W. (Carin) Gorter
J.H. (Jan) Holsboer
R.W.P. (Robert) Reibestein
L.A.C.P. (Luc) Vandewalle

Risk Committee
R.W.P. (Robert) Reibestein, chairman
J.P. (Tineke) Bahlmann
J.H. (Jan) Holsboer
J.C.L. (Joost) Kuiper
H.J.M. (Hermann-Josef) Lamberti
L.A.C.P. (Luc) Vandewalle
J. (Jeroen) van der Veer

Remuneration Committee
P.A.F.W. (Peter) Elverding, chairman
H.W. (Henk) Breukink
Y.C.M.T. (Yvonne) van Rooy
J. (Jeroen) van der Veer

Nomination Committee
J. (Jeroen) van der Veer, chairman
H.W. (Henk) Breukink
P.A.F.W. (Peter) Elverding
Y.C.M.T. (Yvonne) van Rooy

Insurance Europe Committee (2)
J.H. (Jan) Holsboer, chairman
Y.C.M.T. (Yvonne) van Rooy
J.C.L. (Joost) Kuiper, temporary member
R.W.P. (Robert) Reibestein, temporary member

(1) The current composition of the Supervisory Board Committees can be found on the ING Group's website (www.ing.com).
(2) This is a temporary committee.

ING and NN Group at a glance

NN GROUP IS PART OF ING GROUP

ING'S MISSION

To set the standard in helping our customers manage their financial future. ING aims to deliver financial products and services in the way our customers want them: with exemplary service, convenience and at competitive prices.

ING'S PROFILE

ING is a global financial institution of Dutch origin, currently offering banking, investments, life insurance and retirement services. We draw on our experience and expertise, our commitment to excellent service and our global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments. The strength of the company is, among other things, based on its relatively high customer satisfaction levels, solid financial position, multi-channel distribution strategy and international network. Moreover, ING is a sustainability leader in its sector.

ING currently serves more than 48 million customers in more than 40 countries. ING has more than 75,000 employees.

ING'S FOCUS

ING's focus is on increasing customer satisfaction, simplifying its organisation and product offering, strengthening its financial position and solidifying the sustainability of its business model.

ING'S STAKEHOLDERS

ING conducts business on the basis of clearly defined business principles. In all our activities, we carefully weigh the interests of our various stakeholders such as customers, employees, supervisors, shareholders, civil society organisations and regulators.

ING'S STRATEGY

ING has strategic priorities at the Group, Bank and Insurance (NN Group) levels. All are ultimately in line with our mission.

ING Group's strategic priorities up to 2013 have been: strengthening our financial position, restructuring, repaying the remaining state aid and building both stronger and sustainable banking and insurance/investment management (IM) businesses.

ING Bank's strategic aim is to be a strong, predominantly European bank for its customers. ING Bank wants to be a leading domestic full-service bank in attractive, stable home markets, as well as a leading commercial bank in the Benelux with a strong position in Central and Eastern Europe. A refined and sharpened Bank strategy for 2014 and onwards will be presented in the first half of 2014.

NN Group's focus is on service to customers, generating capital, growing profitability and improving efficiency. Its strategy is about offering appealing and easy to understand products and services, multi-access distribution and efficient and effective operations in the 18 countries in which it is active.

NN GROUP

NN Group is a leading insurance and investment management company with a strong, predominantly European, presence in 18 countries. With more than 12,000 employees, it offers retirement services, insurance, investments and banking to retail, SME, corporate and institutional customers. The reporting segmentation is as follows:

- Netherlands Life
- Netherlands Non-life
- Insurance Europe
- Japan Life
- Investment Management
- Other
- Japan Closed Block VA

AGREEMENT WITH EUROPEAN COMMISSION

In November, ING and the Dutch State reached an agreement with the European Commission on a revised timeline for the divestment of the European and Japanese businesses. Under this revised agreement, it was announced that Japan Life would be included in the base case IPO.

As such, the timeline to divest more than 50% of Japan Life has effectively been extended by two years to year-end 2015. This is the agreed timeline to divest more than 50% of ING's European insurance and investment management businesses. Also as part of the revised EC agreement, ING will accelerate the time to complete the 100% divestment of its insurance and investment management activities in Europe and Japan by two years, to year-end 2016.

NN GROUP SEGMENTS

Netherlands Life

Netherlands Life offers a range of group life and individual life insurance products. Its group life policies are primarily group pension products. Its individual life insurance business primarily consists of the closed-block operation of the individual life portfolios (comprising a range of discontinued products sold prior to 2012) of Nationale-Nederlanden, RVS and ING Verzekeringen Retail, formerly known as Postbank Insurance. Netherlands Life also provides pension administration and management services through its AZL brand.

Netherlands Non-life

Netherlands Non-life offers a broad range of non-life insurance products – motor, transport, fire, liability, travel and income protection (disability and accident insurance) – to retail, self-employed, SME (small and medium-sized enterprises) and corporate customers. It does this through multi-channel distribution such as regular and mandated brokers, ING Bank and direct via the internet. Its Movir brand offers individual disability insurance to specific groups in the medical and business professions.

ING and NN Group at a glance continued

Insurance Europe
Insurance Europe primarily offers life insurance, mainly to retail, self-employed, SME and corporate customers in 11 countries: Poland, Turkey, Czech Republic, Slovak Republic, Romania, Hungary, Bulgaria, Belgium, Spain, Greece and Luxembourg. It also offers pensions in some of these markets and non-life insurance in Belgium and Spain, and healthcare insurance in Greece.

Japan Life
In Japan, NN Group primarily offers a range of COLI (corporate owned life insurance) products to SMEs and owners and employees of SMEs through independent agents and bancassurance. COLI products are traditional life insurance policies with an average duration of nine years that a company, typically an SME, takes out on the lives of executives or employees, whereby the company is both the policyholder and the beneficiary of the policy. COLI products are designed to address the protection, savings, and retirement preparation needs of SMEs and owners and employees of SMEs in a tax-efficient manner.

Investment Management
Investment Management offers a wide variety of actively managed investment products and advisory services to retail and institutional customers in all major asset classes and investment styles. In addition, it manages the assets of NN Group's businesses. Investment Management offers its products and services globally through regional centres in several countries across Europe, the United States, the Middle East and Asia, with the Netherlands as its main investment hub.

Other
"Other" comprises the business of Nationale-Nederlanden Bank and ING Re (NN Group's internal reinsurer), the results of the holding and other results.

Nationale-Nederlanden Bank offers a range of banking products, especially mortgages and savings, to retail customers in the Netherlands.

ING Re is NN Group's internal reinsurer located in the Netherlands. ING Re primarily offers reinsurance to NN Group's businesses. It manages its risks through ceding excess insurance risk to external reinsurers and hedging (a major part of) its market risks. ING Re also reinsures the minimum guarantee obligations of the Japan Closed Block VA.

Japan Closed Block VA
Japan Closed Block VA comprises NN Group's closed-block single premium variable annuity (SPVA) individual life insurance portfolio in Japan. This portfolio consists of SPVA products with substantial minimum guarantee obligations sold predominantly from 2001 to 2009. In 2009 ING ceased the sale of these products and placed this portfolio in run-off. This portfolio has been classified as a closed-block and is managed as a separate segment.

Over 90% of the portfolio is projected to run off by 2019, due to the short-term maturity profile of the SPVA products.

Overview

NN Group is a leading insurance and investment management company with a predominantly European presence in 18 countries. Its purpose is to help customers secure their financial futures: helping them manage and protect their assets and income through pensions, investments, insurance, savings and mortgages. Its strategy is to deliver an excellent customer experience by offering appealing and transparent products and services, multi-access distribution, efficient and effective operations, and to maintain a solid balance sheet that keeps customers' money safe and delivers shareholder value.

In October, future plans were announced to rebrand the insurance and investment management activities in Europe and Japan as NN. This new identity links the company's heritage and Dutch roots with the requirements of an international forward-looking brand. Local business descriptors will be added to the NN brand in different countries. Investment Management will rebrand as NN Investment Partners. The operational rebranding process is scheduled to begin after NN Group has been successfully brought to the market.

As part of the preparations to become a standalone company through a base case IPO, changes were made to the reporting segmentation in the fourth quarter of 2013, as follows:

- Netherlands Life
- Netherlands Non-life
- Insurance Europe
- Japan Life
- Investment Management
- Other
- Japan Closed Block VA

ASIAN DIVESTMENT

Good progress was made in 2013 in divesting the Asian Insurance and Investment Management businesses. By year-end, most of these businesses, including ING's life insurance companies in South Korea, Hong Kong, Macau and Thailand, its 26% interest in ING Vysya Life Insurance Company Ltd and its 49% stake in South Korean insurer KB Life had been divested. An agreement had also been announced to sell a 50% stake in the Chinese insurance joint venture ING-BOB Life Insurance Company. It also completed the sale of its 33% stake in China Merchants Fund, as announced in 2012. Investment Management businesses in Malaysia, Thailand and South Korea were also sold. The sale of the interest in the joint venture ING Financial Services Private Limited to Hathway Investments was completed. In early 2014, an agreement was reached to sell the investment management business in Taiwan. ING resolved the remaining divestment of its Asian insurance and investment management operations with the inclusion of ING Life Japan in the base case IPO of NN Group.

AMERICAN DIVESTMENT

In May, ING U.S. listed on the New York Stock Exchange and began operating as a publicly traded company. The listing initially reduced ING Group's stake in ING U.S. to 71%. In September, the remaining stake in ING U.S. was transferred from NN Group to ING Group. Later in the year, ING Group successfully sold a second tranche of shares, reducing its stake further to 57%. The 2012 Amended Restructuring Plan requires ING Group to divest at least 25% of ING U.S. by 31 December 2013; more than 50% by 31 December 2014; and 100% by 31 December 2016.

GOVERNANCE

On 28 February 2014, before the finalisation of the 2013 consolidated financial statements, ING Insurance Topholding N.V. legally merged with its wholly-owned subsidiary ING Verzekeringen N.V. The legal merger became effective on 1 March 2014 and on that date the merged entity was renamed NN Group N.V. Through this merger, the legal entity ING Verzekeringen N.V. ceased to exist and NN Group N.V. became the legal successor of ING Verzekeringen N.V.

NN Group N.V. became the entity for the base case IPO for the European and Japanese insurance and investment management operations. Until 1 March 2014 these operations were conducted under the umbrella of ING Verzekeringen N.V. In this Annual Report, NN Group will be used to indicate these operations. Please see page 4 for the composition of the Boards.

CUSTOMER EXPERIENCE

NN Group's aim is to help customers secure their financial future. NN Group's strategy focuses on offering appealing and easy-to-understand products and services, multi-access distribution and efficient and effective operations. In line with its ambition to be a leading, responsible and customer-centric organisation.

Enhancing the customer experience means being accessible, listening to the needs of customers, following-up on their expectations, and offering them products and services that are suitable to their needs. The result is that we help create a stronger financial future for our customers.

The NN Group corporate values, introduced in 2013, form a key component in its approach towards customer centricity. They are connected to the company's roots, heritage and common purpose:

- We care: we see our customers as the starting point of everything we do. We respect each other and believe that working together leads to better results. We take our role in society seriously.
- We are clear: easy to understand, transparent and accessible. We listen carefully and take action accordingly. We keep our promises.
- We commit: we take responsibility for what we do. We act with integrity and focus on our long-term objectives.

Overview continued

SUPPORTING AND DEVELOPING EMPLOYEES

For a customer-focused organisation such as NN Group, engaged employees are the key to success. This means attracting the right people, empowering them, giving them clear accountability and ensuring that they focus on continuous development and set ambitious but realistic goals.

Employees are encouraged to invest in themselves and in their employment prospects. Employees are given, for example, training, coaching and internships. In the Netherlands they are also offered retraining advice if they are made redundant.

2013 was a year of major transition for the insurance and investment management operations in the Netherlands. As announced in November 2012, the transformation programme in the Netherlands is expected to result in an estimated headcount reduction of 1,350 FTEs over the period 2013-2014. By the end of 2013, a reduction of 818 FTE was realised. The restructuring has resulted in stronger governance and better integrated support functions and three distinct Dutch business lines: Netherlands Life, Netherlands Non-life and Nationale-Nederlanden Bank. Supporting employees through this transition was a key priority for the company.

A three year collective labour agreement was signed, which included the goal of stabilising labour costs as well as integrating WestlandUtrecht employees into Nationale-Nederlanden Bank. Despite the turbulence of the past few years, employee engagement remained high. This was also reflected in employees' willingness to involve themselves in community activities outside the company in many countries.

SUSTAINABILITY

Embedding sustainability in core activities and processes remained a key priority. The businesses strive – in their daily actions and decision making – to strike a balance between financial interest and their impact on society and the environment. This entails – amongst others – offering products and services that are suitable, transparent and contribute to the financial wellbeing of our customers.

NN Group's ambition is to play a leading role in improving industry standards. Its aim is to be a trusted partner in financial matters, providing guidance and financial education so consumers better understand and secure their financial future. Efforts to become an even stronger company for stakeholders, for example by continuing to make things easier and simpler for customers, are a significant aspect of its business strategy.

In the field of responsible investing, Investment Management has taken significant steps in integrating environmental, social and governance ("ESG") aspects into the investment process. Sustainable assets under management increased by 8.3% to EUR 3.5 billion. In line with being an active investor, Investment Management also attends shareholder meetings of its investee companies. In 2013 it introduced the publication of quarterly Active Ownership reports on its voting and engagement activities. For more information on these and other sustainability-related subjects, please refer to the ING Group Sustainability Report.

NN Group became one of the founding signatories of the United Nations Principles for Sustainable Insurance (PSI) in 2012, which underlines its commitment to embedding ESG considerations into strategy and decision making. In 2013, the PSI strategy for the coming years was written and approved by all PSI members.

NN Group takes its role in society seriously. Activities range from financial education to health and wellbeing initiatives. They involve raising funds and employees volunteering their time for special projects.

SOLVENCY II

Throughout 2013, the insurance business worked towards meeting the European Union's Solvency II Directive's requirements, particularly with respect to adapting NN Group's risk measurement, risk management and reporting to the levels required.

The trial Internal Model Application Package ("IMAP") was submitted to DNB, the Dutch regulator, in 2013. The submission was a first step towards gaining approval for an internal model for the quantification of NN Group's capital requirements. The review of the IMAP by the College of Supervisors (a group of international supervisors) and the further firming up of Solvency II measures will form the basis of NN Group's implementation efforts.

In November, a major milestone was reached in Brussels. The European Parliament, Council and European Commission reached a political deal on the Omnibus II Directive – amending the 2009 Solvency II Framework Directive. Solvency II's implementation is planned for coming into force on 1 January 2016.

NN Group will continue to play a role in discussions with the industry and with regulators on developing Solvency II so that it is robust and helps life insurance companies continue to meet the long-term financial needs of their customers.

Overview continued

CONCLUSIONS AND AMBITIONS

In 2013, strong progress was made in the European and Japanese insurance and investment management restructuring programme and on improving the customer experience and operational performance.

NN Group's overall ambition is for customers to choose its products and services based on their previous positive experience with its businesses. The priorities for the business are to be a strong, sustainable company, delivering excellent customer service and transparent products. The priorities also include providing multi-access distribution, having efficient and effective operations and generating capital.

Result per segment

OPERATING RESULT BY SEGMENT FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

The operating result ongoing business of NN Group was EUR 905 million in 2013, a 6.2% increase compared with EUR 852 million in 2012, mainly driven by higher operating results for Netherlands Life, Investment Management and the Other segment. This improvement was partially offset by lower operating results for Insurance Europe, Japan Life and Netherlands Non-life.

The loss from non-operating items related to ongoing business improved to EUR 229 million in 2013 from EUR 779 million in 2012. Revaluations, which amounted to a loss of EUR 319 million in 2012 due to the impact of negative revaluations of equity hedges and real estate investments of Netherlands Life, improved to a gain of EUR 3 million in 2013. The provision for guarantees on separate account pension contracts (net of hedging) in the Netherlands had a EUR 202 million lower adverse impact as reflected in market and other impacts.

The result before tax of Japan Closed Block VA was a loss of EUR 669 million in 2013, compared with a profit of EUR 105 million in 2012. This decrease was primarily due to a EUR 575 million charge in order to bring the reserve adequacy of the business line to the 50% confidence level as of 1 October 2013, due to a change in the segmentation of operations that was introduced in the fourth quarter of 2013.

Special items before tax improved to a loss of EUR 126 million in 2013 from a loss of EUR 451 million in 2012, as a result of the provisions set up for the restructuring programme in the Netherlands in 2012 and reduced costs for the operational separation from ING in 2013.

Results on divestments was EUR 84 million in 2013, compared with EUR 50 million in 2012. The result in 2013 reflected NN Group's share in Sul América's net result from operations and the net result from the disposal of part of NN Group's share in the entity, partly offset by a loss on the sale of the Mexican mortgage business. The result in 2012 reflected NN's share in Sul América's net result from operations, partly offset by a loss on the final settlement of the divestment of group pension contracts in the Netherlands, which were transferred to an industry wide pension fund.

The result before tax from continuing operations was a loss of EUR 52 million in 2013, compared with a loss of EUR 245 million in 2012. This improvement was the result of a lower loss of non-operating items and lower adverse impact from special items, partly offset by a decrease in the result for Japan Closed Block VA as a result of the one off charge of EUR 575 million.

Result per segment

amounts in millions of euros	2013	2012
Operating result		
– Netherlands Life	**709**	623
– Netherlands Non-life	**79**	103
– Insurance Europe	**199**	219
– Japan Life	**162**	196
– Investment Management	**131**	109
	1,279	1,250
– Other	**–373**	–399
Operating result ongoing business	**905**	852
Non-operating items ongoing business:	**–229**	–779
– of which gains/losses and impairments	**97**	70
– of which revaluations	**3**	–319
– of which market and other impacts	**–329**	–530
Japan Closed Block VA	**–669**	105
Insurance Other	**–18**	–22
Special items before tax	**–126**	–451
Result on divestment	**84**	50
Result before tax	**–52**	–245
Taxation	**–50**	–113
Net result from continuing operations before attribution to minority interest	**–2**	–132
Net result from discontinued operations	**20**	1,197
Net result from continuing and discontinued operations before attribution to minority interest	**18**	1,065

Result per segment continued

NETHERLANDS LIFE

Netherlands Life's aim is help its customers make the right decisions about their financial future, by providing effective and easy-to-understand products. In 2013, the individual life insurance market continued to go through major change. In response to this, Netherlands Life is lowering costs by streamlining its processes and systems. In pensions it is well positioned to capture more opportunities in the growing Defined Contribution market. In all its businesses, Netherlands Life is committed to improving the customer experience.

Financial Developments

Net result Netherlands Life

amounts in millions of euros	2013	2012
Investment margin	557	562
Fees and premium-based revenues	461	508
Technical margin	237	141
Operating income	**1,255**	1,211
Administrative expenses	472	495
DAC amortisation and trail commissions	75	92
Expenses	**547**	587
Operating result	**709**	623
Non-operating items:	–345	–689
– of which gains/losses and impairments	–43	138
– of which revaluations	27	–296
– of which market and other impacts	–329	–530
Special items before tax	–22	–225
Result on divestment	6	–23
Result before tax	**347**	–313
Taxation	65	–162
Minority interests	6	12
Net result	**276**	–164

The operating result for Netherlands Life was EUR 709 million in 2013 compared with EUR 623 million in 2012, mainly due to a higher technical margin partly offset by lower fees and premium based revenues.

The investment margin decreased to EUR 557 million in 2013 from EUR 562 million in 2012, after a slight decline in investment income mainly due to lower dividends on equity securities.

Compared with 2012, fees and premium-based revenues in 2013 decreased by EUR 47 million to EUR 461 million, mainly due to the run-off of the individual life closed book portfolio as well as lower cost charges to clients within individual unit-linked insurance policies from 2013 onwards.

In 2013 the technical margin was EUR 237 million, a 68.1% increase from EUR 141 million in 2012, mainly driven by non-recurring movements in technical provisions in both years.

Administrative expenses decreased to EUR 472 million in 2013 compared with EUR 495 million in 2012, mainly due to the transformation programme in the Netherlands partly offset by higher pension expenses.

DAC amortisation and trail commissions declined 18.5% to EUR 75 million in 2013, in line with the decline in new life sales and reduced acquisition costs, as a result of the commission ban on complex products in the Netherlands.

Gains/losses and impairments decreased to a EUR 43 million loss in 2013 from a gain of EUR 138 million in 2012. The loss in 2013 was mainly due to impairments on real estate, while the gain in 2012 was mainly driven by realised gains on equities.

Revaluations improved to a gain of EUR 27 million in 2013 compared to a loss of EUR 296 million in 2012. Negative real estate revaluations in 2013 were more than offset by positive revaluations of private equity. The loss in 2012 included a EUR 206 million loss on equity hedges and a EUR 149 million negative revaluation of real estate, partly offset by a EUR 20 million positive revaluation of private equity.

The 2013 loss of EUR 329 million in market and other impacts, was mainly a result of the change in the provision for guarantees on separate account pension contracts (net of hedging). This included a non-recurring loss of EUR 177 million from a refinement of the market interest rate assumption to further align the accounting and the hedging for the separate account pension business. In 2012, the loss from the change in the provision for guarantees on separate account pension contracts (net of hedging) was EUR 530 million.

Special items were a loss of EUR 22 million in 2013, primarily due to preparation costs for the base case IPO. This compared to a loss of EUR 225 million in 2012 which primarily reflected reorganisation provisions related to the transformation programme announced in late 2012 as well as expenses related to the operational separation from ING Group.

Result on divestment was a gain of EUR 6 million in 2013, compared with a loss of EUR 23 million in 2012. The loss in 2012 was related to the final settlement of the divestment of group pension contracts which were transferred to industry wide pension funds.

The result before tax was a gain of EUR 347 million in 2013, compared with a loss of EUR 313 million in 2012, driven by an improvement in non-operating items and lower adverse impact from special items as well as the increase in operating result.

Business developments

Netherlands Life offers a range of group life and individual life insurance products. Its group life policies are primarily group pension products. Its individual life insurance business primarily consists of the closed-block operation of the individual life portfolios (comprising a range of discontinued products sold prior to 2012) of Nationale-Nederlanden, RVS and ING Verzekeringen Retail, formerly known as Postbank Insurance. Netherlands Life also provides pension administration and management services through its AZL brand.

Result per segment continued

Netherlands Life was the largest life insurer in the Netherlands as measured by Gross Written Premiums (GWP) in 2012, the most recent year of official figures, collected by DNB.

In the pensions market, the persistently low-interest rate environment and longevity risk have increased employers' funding costs for pension schemes. Through Netherlands Life's Pensions division, Netherlands Life provides pension solutions to businesses of all sizes. It offers insured and non-insured pension solutions, bundled and unbundled options, and works in close collaboration with pension administrator AZL and ING Investment Management. Netherlands Life Pensions is able to help existing and new customers move from Defined Benefit to Defined Contribution pension schemes, giving employers greater certainty over the funding cost of their pension schemes and at the same time reducing risk and capital requirements for Netherlands Life.

The individual life insurance market is going through major change, driven in part by the economic downturn which is affecting consumer confidence and spending patterns, and by new regulations related to commissions on how individual life insurance products are sold. A major shift towards bank annuity products is taking place. In response to these developments, Netherlands Life is lowering costs by streamlining its processes and systems, and improving the customer experience. Netherlands Life is focused on providing excellent service to clients who have purchased individual contracts in previous years. It will continue to provide simple solutions by offering term life and direct annuities to prospective retail customers.

In 2012, Netherlands Life stepped up its efforts in compensating customers with individual unit-linked policies based on the compensation scheme with two consumer protection organisations and also based on additional measures ("flankerend beleid") that comply with the "Best in Class" criteria as formulated by the Dutch Minister of Finance. By early 2013, all policyholders of an individual unit-linked policy were informed about their compensation. The agreements with the two consumer protection organisations are not binding on policyholders. For more information, please refer to "Legal proceedings" in the Accounts section of this Annual Report.

Customer experience

Netherlands Life measures and analyses its Net Promoter Score (NPS) results and complaints. It adjusts processes in line with customers' feedback and expectations.

In pensions, its objective is to help customers make informed decisions about their financial future throughout their lives. In 2013, Netherlands Life improved the quality of its communication with customers. For example, it introduced a new website www.thuisinpensioen.nl where customers can find answers to questions about pensions.

Products

Netherlands Life launched a Defined Contribution (DC) pension product (Essentie Pensioen) in 2012 which bundles insurance from Nationale-Nederlanden, pension administration by AZL and investment management services from Investment Management. It launched another DC product (Bewust Pensioen) in 2013, which is based on a straight-through-processing framework and offers guarantees and investment opportunities. With these two products, Netherlands Life is well positioned to capture more opportunities in the growing DC market.

Distribution

As a result of the legislative ban in 2013 on commissions for complex financial products and stricter requirements for certification, there has been a reduction in the number of intermediaries in the Dutch market. At the same time new distributors have appeared, who are expanding their services, and distributing pension products together with financial advice to their clients.

In group life, Netherlands Life is increasingly offering DC propositions, both insured and non-insured, alongside its full service Defined Benefit (DB) pension solutions. Furthermore, due to the greater use of digital tools, processes are becoming more efficient for customers.

Conclusions and ambitions

Netherlands Life's ambition is to help its customers make the right decisions about their financial future and it will achieve this by guiding them through effective and easy-to-understand products.

Result per segment continued

NETHERLANDS NON-LIFE

Netherlands Non-life is lowering its run rate expenses by innovating processes and products. Its aim is to further improve customer and intermediary service levels. It continues to sell its products through multiple distribution channels. Intermediaries continue to play an important role, but bancassurance and direct channels are also an integral part of Netherlands Non-life's distribution strategy.

Financial Developments

Net result Netherlands Non-life

amounts in millions of euros	2013	2012
Earned premiums, net of reinsurance	**1,546**	1,626
Investment income (net of investment expenses)	**115**	129
Other income	**68**	90
Operating income	**1,729**	1,844
– Gross claims paid	**1,071**	1,092
– Reinsurance recoveries	**–25**	–24
– Change in claims reserves	**13**	95
– Change in reinsurers' share of claims reserves	**7**	9
– Profit sharing and rebates	**11**	6
Claims incurred, net of reinsurance	**1,077**	1,178
Acquisition costs	**241**	248
Administrative expenses	**332**	313
Acquisition costs and administrative expenses	**573**	562
Expenditure	**1,651**	1,741
Operating result	**79**	103
Non-operating items:	**4**	–15
– of which gains/losses and impairments	**–1**	1
– of which revaluations	**5**	–15
Special items before tax	**–16**	–140
Result before tax	**66**	–51
Taxation	**14**	–16
Net result	**53**	–35

The operating result for Netherlands Non-life was EUR 79 million in 2013, a 23.3% decline compared with EUR 103 million in 2012, mainly due to a lower operating result in the Property & Casualty (P&C) segment partly offset by a higher operating result in the Disability & Accident (D&A) segment.

Operating income was EUR 1,729 million in 2013, a 6.2% decrease compared with EUR 1,844 million in 2012. This decrease was largely driven by lower earned premiums in the SME P&C and D&A segments due to the challenging economic conditions and an underwriting focus on value and return over volume. Other income comprising commission income earned by NN Group's wholly-owned insurance brokers, Mandema and Zicht, showed a decrease as a result of the new legislation prohibiting insurance companies to pay commissions to brokers, which became effective in 2013.

Expenditure improved to EUR 1,651 million in 2013 compared with EUR 1,741 million in 2012. This improvement was driven by a significant reduction in claims frequency for disability and accident insurance products following the implementation of a recovery programme in 2011 and 2012. The recovery was also strengthened by a significant improvement in the claims experience for short-term disability products. The restored profitability of the Income business was partly offset by a relatively high volume of significant claims in the fire product line and several large storms in the fourth quarter of 2013, which increased expenditures in the P&C market segment. Administrative expenses increased by EUR 19 million mainly as a result of higher pension expenses, which more than offset the impact of the transformation programme in the Netherlands.

The result from non-operating items was a gain of EUR 4 million in 2013 compared with a loss of EUR 15 million in 2012. The positive result reflects improved revaluations of both real estate and private equity assets in 2013 and negative revaluations of the direct equity hedge in 2012.

Special items were a loss of EUR 16 million in 2013, primarily due to preparation costs for the base case IPO. This compared to a loss of EUR 140 million in 2012, which mainly reflected reorganisation provisions related to the transformation programme announced in late 2012 and expenses for the operational separation from ING Groep.

The result before tax increased to a gain of EUR 66 million in 2013 from a loss of EUR 51 million in 2012. The decrease in operating result was more than offset by an improvement in non-operating items and special items.

Business developments

Netherlands Non-life offers a broad range of non-life insurance products – motor, transport, fire, liability, travel and disability and accident insurance – to retail, self-employed, SME (small and medium-sized enterprise) and corporate customers. It does this through multi-channel distribution such as regular and mandated brokers, ING Bank and direct via the internet. Its Movir brand offers individual disability insurance to specific groups in the medical and business professions.

In the Netherlands, Netherlands Non-Life was the third largest provider of non-life insurance products (excluding healthcare insurance) measured by Gross Written Premiums (GWP) in 2012, the most recent year of official figures, as collected by DNB.

The economic downturn continued to affect the non-life business in 2013, most visibly in disability and accident insurance. Netherlands Non-life is gradually increasing the profitability of this product line having adjusted premiums and having made operational improvements in the claims process.

Furthermore, by innovating products and processes it lowered run rate expenses. In the property and casualty business, it downsized the product portfolio in line with the focus on retail, SMEs and the self-employed.

Result per segment continued

Products and services

Netherlands Non-life broadened its non-life insurance package for companies in 2013. It introduced, for example, cover for disruption to web shops such as cybercrime, and launched an insurance package to protect employers and their businesses against illness and disability. The broadened range of insurance also supports intermediaries who are able to offer their business clients more insurance options.

In the retail space, Netherlands Non-life began to offer online travel insurance and cover against unexpected legal expenses.

A new website was launched for intermediaries (www.adviseur.nn.nl) which includes a tool to select customers for mailing promotions.

Netherlands Non-life is constantly improving its processes by implementing straight-through-processing (STP). This not only enhances the customer experience but reduces manual work, errors and costs.

Distribution developments

Netherlands Non-life continues to distribute its products through third-party channels, but in 2012 it started to provide retail products via its own direct channels, and it enhanced these channels in 2013. In the SME market for income protection and for property and casualty products, the intermediary channel remained the dominant distribution channel because of the complexity and the need-for-advice nature of the products. Distribution via ING Bank continued to deliver encouraging results in the Property and Casualty market.

Conclusions and ambitions

The weak economic environment continued to affect the business, but Netherlands Non-life is on track with profit recovery. It continues to improve its products and processes, enhance the customer experience and to lower expenses.

INSURANCE EUROPE

In spite of the challenging macroeconomic environment in many European countries, Insurance Europe achieved growth in 2013 by increasing multi-channel distribution and improving service levels, which resulted in higher NPS scores. Insurance Europe has a strong focus on profitable growth.

Financial Developments

Net result Insurance Europe

amounts in millions of euros	2013	2012
Investment margin	**105**	122
Fees and premium-based revenues	**507**	514
Technical margin	**191**	210
Operating income non-modelled business	**20**	20
Operating income life insurance	**824**	866
Administrative expenses	**310**	334
DAC amortisation and trail commissions	**319**	321
Expenses life insurance	**630**	654
Operating result life insurance	**194**	212
Non-life operating result	**5**	7
Operating result	**199**	219
Non-operating items:	**53**	–66
– of which gains/losses and impairments	**55**	–82
– of which revaluations	**–3**	17
– of which market and other impacts		–1
Special items before tax	**–9**	–38
Result before tax	**243**	115
Taxation	**77**	25
Minority interests	**9**	9
Net result	**156**	81

The operating result for Insurance Europe was EUR 199 million in 2013, a 9.1% decline compared with EUR 219 million in 2012. A lower investment margin and technical margin were partly offset by lower administrative expenses.

The investment margin for 2013 was EUR 105 million, compared with EUR 122 million for 2012. This decline reflects lower re-investment yields and the impact of a regulatory change, both in the Czech Republic.

Fees and premium-based revenues decreased slightly from EUR 514 million in 2012 to EUR 507 million in 2013, mainly due to lower unit-linked premiums in Belgium and Luxembourg.

The technical margin decreased to EUR 191 million in 2013 from EUR 210 million in 2012, mainly due to lower surrender results in Greece and lower morbidity margin in Romania and Greece. These declines were partly offset by a EUR 10 million reclassification of the Belgian crisis tax, booked in the technical margin in 2012, to DAC amortisation and trail commissions in 2013.

Result per segment continued

Administrative expenses were EUR 310 million in 2013, a 7.2% decrease compared with EUR 334 million in 2012. This decrease partly reflects the incurrence of a one-off financial institution tax in Hungary of EUR 15 million in 2012 and tight cost control throughout the region in 2013, the impact of the latter partly offset by investments in new business in Turkey.

DAC amortisation and trail commissions decreased slightly to EUR 319 million in 2013 from EUR 321 million in 2012. DAC amortisation and trail commissions in Belgium decreased due to a new commission agreement with distributor ING Bank Belgium as well as lower sales, offset by the reclassification of the Belgian crisis tax.

Non-operating items increased to a gain of EUR 53 million in 2013 from a loss of EUR 66 million in 2012. This increase reflects a EUR 48 million gain on the sale of Dutch and German government bonds in Belgium in 2013, as compared with capital losses and impairments on financial and government bonds in Belgium and Spain in 2012.

Special items were a loss of EUR 9 million in 2013, primarily related to expenses for a regional transformation programme. This compared with a loss of EUR 38 million in 2012 which included expenses related to the operational separation from ING, expenses for the transformation programme and expenses related to the base case IPO.

The result before tax increased to EUR 243 million in 2013 from EUR 115 million in 2012. The decrease in operating result was more than offset by an improvement in non-operating items and special items.

Business developments
Insurance Europe offers life insurance, mainly to retail, self-employed, SME and corporate customers in 11 countries: Poland, Turkey, Czech Republic, Slovak Republic, Romania, Hungary, Bulgaria, Belgium, Spain, Greece and Luxembourg. It also offers pensions in some of these markets and non-life insurance in Belgium and Spain and healthcare insurance in Greece.

In Europe, Insurance Europe was in 2012 the largest provider of life insurance in Romania and Hungary, and had top-four positions in the Czech Republic and Greece – in each case measured in GWP. It was the largest provider of mandatory pensions in Poland, Slovak Republic, Romania and Hungary, and voluntary pensions in Romania – in each case measured by assets under management.

Customer focus
Insurance Europe is making clear progress in improving the customer experience and received awards for this in several countries. In Poland an electronic application for customers significantly reduced online claims handling and service time. In Romania new functions in My ING, the first self-service portal in the local life insurance market, were introduced. Spain launched a new customer website including a self-service portal with improved functionality; policies can now be delivered within two days from application. Czech Republic now processes about 80% of claims within five days. In Belgium the car insurance claim process was redesigned to make it clearer for customers. In Turkey the website was re-launched with more functions, and the client portal's self-service capability was enhanced; in addition, a mobile application was introduced to give customers access to their accounts at any time and wherever they are.

In Bulgaria annual pension statements can now be received by email, which brings convenience and reduces paper usage.

Products
Insurance Europe offers both protection and investment products. It introduced several customer initiatives in 2013 in line with its strategy to improve the customer experience. In January Greece launched its new health product, Orange Cross, with plain language, illustrations and an easy-to-use manual. In December 2012, ING in the Czech Republic launched For You, breast cancer insurance cover for women which includes online access to information and help about cancer prevention. For You has been well received by customers, achieving an excellent NPS score. In 2013 Spain became the second country to offer For You.

Spain signed a collaboration agreement with Mutua Madrileña Group, and started selling its car insurance with special benefits for ING customers. Poland achieved success with its "Insure yourself and trick the cancer" campaign, which was voted the best campaign in the finance category of the Zloty Spinacz awards, a prestigious public relations award. The campaign was recognised for its corporate responsibility features, including cancer prevention and education about healthy living and the importance of regular medical examinations. Romania launched the country's first online life insurance service. Turkey introduced a long-term life product, using online and offline distribution channels. Luxembourg launched a unit-linked life insurance solution for the French market.

Distribution
Insurance Europe is building a multi-channel distribution platform to serve customers across all channels. It continues to invest in tied agents via the Tangerine programme which pools ING's regional know-how and provides a best-practice template on how to run a tied agent sales force. Tangerine is being introduced country-by-country and is already increasing tied agent productivity. Insurance Europe is also investing in the broker channel, especially in Turkey.

In bancassurance, Insurance Europe is signing up more banking partners as well as working closer with existing partners. In November a partnership was announced with Anadolubank in Turkey, where bancassurance arrangements performed well in 2013. NN in Luxembourg is building partnerships in France and Italy.

Result per segment continued

Turkey launched a pilot network of retail insurance shops selling ING products and those of its competitors. In Spain a pilot network of insurance agents (Orange Points) in the country's smaller cities was established to reach new and existing customers not covered by the company's branch network, which is located in the large cities.

Conclusions and ambitions

Insurance Europe made clear progress in improving the customer experience and broadening its distribution base in 2013. New products and value propositions were introduced. Its customer focus approach resulted in increasing NPS scores and several awards.

JAPAN LIFE

The Japanese life insurance market is the second largest market in the world. Although it is mature, it has attractive growth opportunities in some large segments and channels. In November 2013, ING announced Japan Life would be included within the base case IPO of NN Group.

Financial Developments

Net result Japan Life

amounts in millions of euros	2013	2012
Investment margin	7	10
Fees and premium-based revenues	436	490
Technical margin	2	23
Operating income	**445**	**523**
Administrative expenses	106	130
DAC amortisation and trail commissions	177	197
Expenses	**283**	**328**
Operating result	**162**	**196**
Non-operating items:	30	13
– of which gains/losses and impairments	42	4
– of which revaluations	–11	10
Result before tax	**192**	**209**
Taxation	71	69
Net result	**121**	**140**

The operating result for Japan Life was EUR 162 million in 2013, a 17.3% decline compared with EUR 196 million in 2012, due to the 27% depreciation of the Japanese yen against the euro in 2013.

Fees and premium-based revenues were EUR 436 million in 2013, an 11.0% decrease compared with EUR 490 million in 2012, due to the depreciation of the Japanese yen against the euro. Excluding this currency effect, fees and premium based revenues increased by 10.0% driven by strong COLI sales and favourable persistency.

The technical margin decreased to EUR 2 million in 2013 compared with EUR 23 million in 2012, as the 2012 technical margin included strong mortality and morbidity results, while surrender results declined in 2013 following improved persistency in the portfolio.

Administrative expenses were EUR 106 million in 2013, an 18.5% decrease compared with EUR 130 million in 2012, due to the depreciation of the Japanese yen against the euro. Excluding currency effects, administrative expenses remained broadly stable, increasing by 1.0% compared to 2012.

DAC amortisation and trail commissions decreased to EUR 177 million in 2013 compared to EUR 197 million in 2012. Excluding currency effects, DAC amortisation and trail commissions increased by 11.7% due to higher in-force volume.

Gains/losses and impairments increased to EUR 42 million in 2013 from EUR 4 million in the prior year, mainly caused by asset rebalancing.

Revaluations decreased to a loss of EUR 11 million in 2013 from a gain of EUR 10 million in the previous year.

The result before tax decreased to EUR 192 million in 2013 from EUR 209 million in 2012, due to the decrease in operating result. This was partly offset by an improvement in non-operating items.

Business developments

In Japan, NN Group primarily offers a range of COLI (Corporate-Owned Life Insurance) products to SMEs and owners and employees of SMEs through independent agents and bancassurance. COLI products are traditional life insurance policies that a company, typically an SME, takes out on the lives of executives or employees, whereby the company is both the policyholder and the beneficiary of the policy. COLI products are designed to address the protection, savings, and retirement preparation needs of SMEs and owners and employees of SMEs in a tax-efficient manner.

In 2012, Japan Life was Japan's third largest provider of COLI products measured by Annual Premium Equivalent (APE).

Japan Life believes that customer centricity is crucial to its success. Continuously improving the customer experience is one of its priorities. Key improvements in 2013 included the redesign of approximately 200 application and request forms, and the improvement of the interactive voice response process at the call centre.

In 2013, Japan Life received a three-star rating (out of a maximum of three) for its after-sales call centre from the service and support industry organisation, HDI-Japan (Help Desk Institute), emphasising the company's commitment to deliver superior service to its customers and distribution partners.

Conclusions and ambitions

The continued shift towards professional distribution channels, such as independent brokers and banks, is creating growth opportunities for Japan Life. Its aim is to grow faster than the market boosted by its strong presence in these channels.

Result per segment continued

INVESTMENT MANAGEMENT

Investment Management operates from a strong middle and back office, enabling solid investment performance and room for further growth in assets under management. It is preparing for the base case IPO of NN Group, making its business simpler by streamlining its governance and divesting several activities in Asia.

Financial Developments

Net result Investment management

amounts in millions of euros	2013	2012
Investment income	**1**	
Fees	**444**	430
Operating income	**445**	430
Administrative expenses	**314**	321
Operating result	**131**	109
Non-operating items:		1
– of which gains/losses and impairments		1
Special items before tax		–6
Result before tax	**131**	105
Taxation	**34**	27
Net result	**97**	77

The operating result for Investment Management was EUR 131 million in 2013, a 20.2% increase compared with EUR 109 million in 2012, driven by higher fees and lower administrative expenses.

Fees were EUR 444 million in 2013, a 3.3% increase compared with EUR 430 million in 2012, as outflows in lower yielding proprietary assets were offset by inflows in higher margin products. As a result, the ratio of fees to average AuM improved slightly from 24.5 basis points in 2012 to 24.8 basis points in 2013.

Administrative expenses were EUR 314 million in 2013, a 2.2% decrease compared with EUR 321 million in 2012, primarily due to non-recurring costs incurred at the end of 2012.

The result before tax increased to EUR 131 million in 2013 from EUR 105 million in 2012, as a result of the increase in operating result.

Business developments

Investment Management offers a wide variety of actively managed investment products and advisory services to retail and institutional customers in all major asset classes and investment styles. In addition, it manages the assets of NN Group's businesses. Investment Management offers its products and services globally through regional centres in several countries across Europe, the United States, the Middle East and Asia, with the Netherlands as its main investment hub.

As at 31 December 2013, Investment Management had EUR 174 billion of AuM, of which EUR 104 billion was managed for third-party retail and institutional customers and the remaining EUR 70 billion for the general account of NN Group's businesses.

In 2013, Investment Management continued to simplify and streamline its operations, in line with the separate divestment of the Asian insurance and investment management businesses.

During the year, ING completed the divestment of its 33.3% stake in China Merchant Fund, ING Funds Berhad in Malaysia, ING IM Thailand, and ING IM Korea. It also closed down its regional office in Hong Kong. The offices in Singapore and Japan are part of the Investment Management organisation and as such included in the base case IPO. In early 2014, an agreement was reached to sell the investment management business in Taiwan.

In 2013, Investment Management again scored highly compared to the industry average in its annual client satisfaction survey. It received various awards that highlighted its customer centricity. On the operational side, it completed the transformation of its infrastructure to a simpler, more advanced environment that enables even better investment performance and that further improves the customer experience.

Products and distribution

Investment Management produces and distributes its products globally. It operates from a modern middle and back office with sufficient capacity to increase its operations without infrastructure constraints. It has a global distribution network across various distribution channels. This network will help it grow its third-party business in the future.

This expansion will be also driven by successful products. More than 71% of its funds have outperformed their respective benchmarks on a three-year asset-weighted basis as at 31 December 2013. 43% of Investment Management's investment funds had a four- or five-star Morningstar rating, which was above the industry average.

Investing responsibly

In managing investments, Investment Management is committed to the UN Principles for Responsible Investment. In 2013, it integrated environmental, social and governance (ESG) factors as a screening criterion into all its investment strategies. These factors can have a significant impact on long-term performance.

Sustainable assets under management increased by 8.3% to EUR 3.5 billion. In line with being an active investor, Investment Management visits shareholder meetings of its investee companies. In 2013, it introduced the publication of quarterly active ownership reports on its voting and engagement activities. For more information on these and other sustainability-related subjects, please refer to the ING Group Sustainability Report.

Result per segment continued

Conclusions and ambitions

Investment Management aims to partner with its clients for the long run. It will continue to focus on delivering best-in-class performance and services for its customers. It has a strong focus on growing its third-party business. Its future name will be NN Investment Partners which signifies its ambition to be a partner to its clients rather than a general supplier of products.

OTHER

"Other" comprises the business of Nationale-Nederlanden Bank and ING Re (NN Group's internal reinsurer) and the results of the holding and other results.

Nationale-Nederlanden Bank accelerated efforts to become a one-stop shop for integrated financial solutions for retail customers, supported by the integration with a part of WestlandUtrecht Bank (WUB) as well as the launch of new savings products. As of 1 July 2013, the profitable operations of WUB, including assets and liabilities, were partially transferred to Nationale-Nederlanden Bank. Solvency II will provide ING Re with new business opportunities.

Financial Developments

Net result Other

amounts in millions of euros	2013	2012
Interest on hybrids and debt	–167	–217
Amortisation of intangible assets	–7	–11
Investment income and fees	8	–2
Holding expenses	–183	–179
Holding result	–348	–410
Operating result reinsurance business	–15	22
Operating result Nationale-Nederlanden Bank	–11	–14
Other results		3
Operating result	–373	–399
Non-operating items:	29	–24
– of which gains/losses and impairments	44	10
– of which revaluations	–14	–34
Special items before tax	–79	–43
Result on divestment	–50	–7
Result before tax	–473	–471
Taxation	–93	–84
Net result	–380	–386

The operating result for the Other segment was a loss of EUR 373 million in 2013, compared with a loss of EUR 399 million in 2012. The improvement largely reflects lower funding costs offset by a lower result from the reinsurance business.

Holding result was a loss of EUR 348 million in 2013, an improvement of 15.1% compared with a loss of EUR 410 million in 2012, largely due to lower interest expense on hybrids and debt. Interest expense on hybrid and debt securities was EUR 167 million in 2013, a decrease of 23.0% compared with EUR 217 million in 2012, mainly reflecting a EUR 2 billion senior debt refinancing by ING Groep in September 2013.

Operating result reinsurance business was a loss of EUR 15 million in 2013, compared with a gain of EUR 22 million in 2012. The 2013 result was negatively impacted by a EUR 31 million one-off loss on a specific reinsurance contract.

Operating result of Nationale-Nederlanden Bank was a loss of EUR 11 million in 2013, compared with a loss of EUR 14 million in 2012, due to start-up and integration expenses.

Non-operating items was a gain of EUR 29 million in 2013, compared with a loss of EUR 24 million in 2012, due to improvements in gains/losses and impairments, reflecting the reallocation of the investment portfolio of ING Re in 2013, and lower losses from revaluations.

Special items amounted to a loss of EUR 79 million in 2013, compared with a loss of EUR 43 million in 2012. The loss in 2013 was primarily due to expenses related to the restructuring and integration of WestlandUtrecht Bank operations at Nationale-Nederlanden Bank. The 2012 loss included EUR 94 million in expenses related to the operational separation from ING Groep and preparation costs for the base case IPO, EUR 56 million in goodwill impairments, and a EUR 26 million reorganisation provision. These negative items were largely offset by a pension provision release of EUR 133 million.

Result on divestments was a loss of EUR 50 million in 2013, compared with a loss of EUR 7 million in 2012. The result on divestments in 2013 primarily reflects a EUR 62 million loss on the sale of the Mexican mortgage business.

The result before tax was a loss of EUR 473 million in 2013, compared with a loss of EUR 471 million in 2012, as improvements in the operating result and non-operating items were offset by higher special items and a lower result on divestments.

Nationale-Nederlanden Bank

Nationale-Nederlanden Bank offers a range of banking products, especially mortgages and savings, to retail customers in the Netherlands. In addition, it coordinates the distribution of Nationale-Nederlanden's individual life and retail non-life insurance products in the Netherlands to enable a comprehensive product offering to retail customers in the Netherlands.

It distributes these products through intermediaries, Nationale-Nederlanden's direct channel and ING Bank. Nationale-Nederlanden Bank aims to build a high quality mortgage book and it has a strong and well-capitalised balance sheet.

Result per segment continued

In June, Nationale-Nederlanden Bank launched two savings products: one with a floating interest rate and the other with fixed interest rate and term. It also introduced an innovative mortgage pledge service (Hypotheektoezegging), where customers are given a mortgage commitment before buying a house. The commitment is conditional upon the absence of subsequent changes in the personal circumstances and the acceptance of the house as collateral for the mortgage.

In 2013 found that consumers increasingly favoured self-directed business, execution-only services via call centres and online rather than financial advice-related services.

The Bank expanded service capacity in its direct channels, set up a web-care team to communicate with customers through social media and introduced www.adviseur.nn.nl, a portal for intermediaries, so they can better service their customers.

ING Re

ING Re is NN Group's internal reinsurer located in the Netherlands. ING Re primarily offers reinsurance to NN Group's businesses. It manages its risks through ceding excess insurance risk to external reinsurers and hedging (a major part of) its market risks. ING Re also reinsures the minimum guarantee obligations of the Japan Closed Block VA. In the segment reporting, the results from this reinsurance agreement are reported by ING Re under the Japan Closed Block VA segment (whilst the rest of ING Re results are reported under the Other segment).

In 2013, ING Re reviewed its key processes and strengthened its governance in preparation for Solvency II and to increase efficiency.

Solvency II provides ING Re with new opportunities to improve NN Group's capital allocation. By reinsuring risks from NN Group's business lines and pooling them centrally at ING Re, diversification benefits can be achieved, resulting in capital efficiencies for NN Group.

Conclusions and ambitions

Nationale-Nederlanden Bank aims to become a one-stop shop for integrated financial solutions for retail customers. With its portfolio of integrated solutions, a strong brand and its extensive distribution base it aims to have a competitive presence in the Dutch financial sector. ING Re will continue to support NN Group businesses by providing reinsurance services.

JAPAN CLOSED BLOCK VA

Japan Closed Block VA primarily consists of single premium variable annuities (SPVA) sold from 2001 to 2009. In 2009, ING in Japan ceased the sale of SPVA products in Japan, placed the portfolio in run-off and classified it as closed-block business.

Financial Developments

Net result Japan Closed Block VA

amounts in millions of euros	2013	2012
Fees and premium-based revenues	136	148
Operating income	**136**	148
Administrative expenses	18	13
DAC amortisation and trail commissions	38	50
Expenses	**56**	64
Operating result	**80**	85
Non-operating items:	–749	21
– of which gains/losses and impairments	1	
– of which market and other impacts	–750	21
Result before tax	**–669**	105
Taxation	–214	33
Net result	**–454**	72

The operating result of Japan Closed Block VA was EUR 80 million in 2013, a 5.9% decrease compared with EUR 85 million in 2012. Excluding currency effects, the operating result increased by 19.1%, mainly driven by higher operating income.

Fees and premium based revenues were EUR 136 million in 2013, a decrease of 8.1% compared with EUR 148 million in 2012 due to the 27% depreciation of the Japanese yen against the euro during 2013. Excluding currency effects, operating income increased by 15.0% due to the strong performance of the Japanese equity markets which boosted the account value of the closed-block annuity portfolio.

The increase in administrative expenses to EUR 18 million in 2013 from EUR 13 million in the prior year was due to preparation for business restructuring as a part of the ING Group divestment plan.

DAC amortization and trail commissions fell to EUR 38 million in 2013, compared with EUR 50 million in 2012, as DAC related to the annuity portfolio was written-down entirely on 1 October 2013, as part of the charge to restore the reserve adequacy of the business line to the 50% confidence level, due to the change in segmentation.

Non-operating items were a loss of EUR 749 million in 2013 compared with a gain of EUR 21 million in 2012. The loss in 2013 was primarily the result of the EUR 575 million charge taken to bring the reserve adequacy of the business line to the 50% confidence level as of 1 October 2013.

Result per segment continued

The result before tax was a loss of EUR 669 million in 2013, compared with a gain of EUR 105 million in 2012. This decrease was primarily due to the incurrence of the EUR 575 million charge to restore the reserve adequacy to the 50% confidence level.

Business developments

Japan Closed Block VA comprises NN Group's closed-block single premium variable annuity (SPVA) individual life insurance portfolio in Japan. This portfolio consists of SPVA products with substantial minimum guarantee obligations sold predominantly from 2001 to 2009. In 2009 ING ceased the sale of these products and placed this portfolio in run-off. This portfolio has been classified as a closed-block and is managed as a separate segment.

Over 90% of the portfolio is projected to run off by 2019, due to the short-term maturity profile of the SPVA products.

The minimum guarantee obligations of Japan Life under the closed-block portfolio are fully reinsured by ING's internal reinsurer, ING Re. ING Re manages this risk through a sophisticated hedging programme. Japan Life is responsible for managing the policies, the relationships with customers, the distribution partners and the Japanese regulatory authority.

Conclusions

The majority of the closed-block SPVA portfolio is projected to run off relatively quickly. The focus is on prudently managing risks via hedging to release capital, as well as on cost and efficiency management.

INSURANCE OTHER

Insurance Other reflects the share in the result of the Brazilian insurer Sul América and overhead expenses of ING Group allocated to NN Group. As of 2014, Insurance Other will cease to exist.

Net result Insurance Other

amounts in millions of euros	2013	2012
Expenses	–18	–22
Result on divestments	129	80
Result before tax	**111**	59
Taxation	–4	–5
Net result	**115**	64

The result before tax of the Insurance Other segment increased to EUR 111 million in 2013 from EUR 59 million in 2012. This increase was mainly due to a higher result on divestments.

Expenses reflect shareholder's expenses of ING allocated to NN Group and were EUR 18 million in 2013, a decline of 18.8% compared with EUR 22 million in 2012, after the divestment of large parts of the Company's Asian businesses in late 2012 and early 2013, which lowered the allocation base for corporate expenses from ING Groep.

Result on divestments reflects NN Group's share in Sul América's net result from operations and the net result from the disposal of part of NN Group's share in the entity. In 2013, NN Group reduced its share in Sul América from 36.5% to 21.3% through two separate transactions. The total transaction result was a net gain of EUR 64 million. NN Group's share in Sul América's net result from operations was 18.8% lower at EUR 65 million in 2013 compared with EUR 80 million in 2012. The decline was due to the 12.6% depreciation of the Brazilian real against the euro and NN Group's decreasing equity stake in Sul América's results.

The tax expense in 2013 as well as in 2012 was a tax receivable, as it related to the allocated ING Group expenses only. The result in divestments as well as the net result in Sul América were tax-exempt under the Dutch participation exemption.

Report of the Supervisory Board

GENERAL

SUPERVISORY BOARD MEETINGS

The Supervisory Board met ten times in 2013 of which eight meetings were regular meetings. On average, 96% of the Supervisory Board members were present at the scheduled meetings. For the two ad hoc meetings the average presence was 91%. Apart from closely monitoring the financial results in 2013, the Supervisory Board also monitored the progress in executing the Restructuring Plan of the European Commission (EC), including the progress on the divestment of various insurance and investment management businesses of ING in Asia.

Audit Committee meetings

In 2013 the Audit Committee met five times with no absentees to discuss the quarterly results, the Annual Report, the Form 20-F and the reports from the external auditor.

The Audit Committee regularly discussed financial reporting, internal controls over financial reporting, capital management and regulatory matters. Nationale-Nederlanden Life actuarial and risk reporting, the developments in the unit-linked products case and the capital plan for NN Group were also topics of frequent discussion during the year.

Risk Committee meetings

The Risk Committee met four times in 2013 with no absentees. At each Risk Committee meeting the financial risk and the non-financial risk reports for banking and insurance were discussed in detail. An outline of the NN Group Recovery Plan was provided. Various stress test scenarios for NN Group were discussed in August. The annual risk appetite statements for NN Group were supported. In November a risk management function review for NN Group was presented to the Risk Committee. During the year the Risk Committee closely monitored the progress of various projects regarding control risk within NN Group. As part of the 2013 permanent education programme, the Risk Committee was informed in depth on new risks in the financial sector. Each meeting ended with a general discussion on possible future risks.

Nomination Committee meetings

The Nomination Committee met six times in 2013 with no absentees, to discuss succession matters for the Executive Board, specifically the CEO succession and the Management Boards. A specific committee for the CEO succession reported to the Nomination Committee and the Supervisory Board in January and February 2013. The Nomination Committee advised to nominate Ralph Hamers as a member of the Executive Board, Management Board Banking and Management Board NN Group as per the AGM of 13 May 2013 and CEO of ING Bank, NN Group and ING Group as per 1 October 2013.

The Nomination Committee also advised on the re-appointment of various Supervisory Board members, the nomination of three Supervisory Board candidates as well as on the future composition of the Supervisory Board including a future independent Supervisory Board for NN Group. The Nomination Committee requested an executive search firm to search for possible NN Group Supervisory Board candidates with financial expertise, preferably in the field of insurance, while also aiming to meet the ambition to have at least 30% female Supervisory Board members. Several candidates were interviewed by members of the Nomination Committee and the Supervisory Board. The Nomination Committee advised the Supervisory Board on the nomination of external candidates for the future Supervisory Board for NN Group.

Remuneration Committee meetings

In 2013, the Remuneration Committee met seven times with one absentee at one meeting. Throughout the year the Remuneration Committee approved Identified Staff related remuneration matters, based upon the governance framework. The functioning of the Executive Board and the Management Boards was discussed regularly. The proposed 2013 performance objectives for the Board were reviewed and positively advised in January.

The annual review of the remuneration frameworks for NN Group took place as well as the annual risk analyses of the remuneration policy. The Identified staff selection criteria and the list of Identified staff for NN Group were reviewed and approved.

Insurance Europe Committee

The Supervisory Board of ING Groep N.V. decided to set up an additional Insurance Europe Committee to advise and assist the Supervisory Board of ING Groep N.V. on the preparation of the proposed IPO of NN Group N.V. Jan Holsboer and Yvonne van Rooy became respectively chairman and member of this committee. For their coordination and experience as chairmen of the Audit and Risk Committees respectively, Joost Kuiper and Robert Reibestein became members of the Insurance Europe Committee on a temporary basis. The committee met formally on a monthly basis from November, and also had individual meetings.

COMPOSITION OF THE EXECUTIVE AND THE MANAGEMENT BOARDS

At the General Meeting of Shareholders in May, Ralph Hamers became a member of the Executive Board, Management Board Banking, Management Board NN Group (formerly called ING Insurance Topholding N.V.) and Management Board ING Verzekeringen N.V. as per AGM of 13 May 2013 and CEO of ING Bank, NN Group, ING Group and ING Verzekeringen N.V. as per 1 October 2013. Jan Hommen remained as CEO until 1 October 2013. Patrick Flynn was appointed as a member of the Executive Board for a consecutive period of four years. On 1 October 2013, Ralph Hamers succeeded Jan Hommen as CEO.

Report of the Supervisory Board continued

COMPOSITION OF THE SUPERVISORY BOARD

Jeroen van der Veer was reappointed to the Supervisory Board for a consecutive period of four years. Tineke Bahlmann, the state-nominated Supervisory Board member, was reappointed to the Supervisory Board for a consecutive period of four years, concluding after the annual General Meeting in 2017.

Isabel Martín Castellá, Carin Gorter and Hermann-Josef Lamberti were appointed to the Supervisory Board on 13 May 2013 by the annual General Meeting. Following the annual General Meeting, Carin Gorter and Isabel Martín Castellá joined the Audit Committee. Carin Gorter also joined the Corporate Governance Committee. Hermann-Josef Lamberti joined the Risk Committee. Henk Breukink and Yvonne van Rooy stepped down from the Audit Committee and joined the Remuneration and the Nomination committees. Please see page 3 for the composition of the Supervisory Board Committees at year-end 2013.

The Nomination Committee and the Supervisory Board will continue to strive for an adequate and balanced composition of the Supervisory Board when selecting and nominating new members for appointment.

Currently, only one Supervisory Board member, Luc Vandewalle qualifies as “non-independent” as defined in best practice provision III.2.2 of the Dutch Corporate Governance Code. Luc Vandewalle is considered to be not independent because of his previous position at ING Bank Belgium.

ANNUAL ACCOUNTS AND DIVIDEND

The Executive Board has prepared the Annual Accounts and discussed these with the Supervisory Board. The Annual Accounts will be submitted for adoption at the 2014 annual General Meeting as part of the Annual Report. ING will not propose to pay a dividend over 2013 at the 2014 annual General Meeting.

APPRECIATION FOR THE EXECUTIVE BOARD AND ING EMPLOYEES

The Supervisory Board would like to express its gratitude to the members of the Executive Board and the Management Boards for their work in 2013. During 2013 decisive steps were once more taken in executing the European Commission restructuring agreement. The Supervisory Board would also like to thank all employees of ING and NN Group who continue to serve the interests of customers, shareholders and other stakeholders of ING and NN Group and have shown continued commitment in the past year.

Corporate governance

CORPORATE GOVERNANCE STATEMENT

This chapter is our Corporate Governance Statement, required pursuant to the Decree with respect to the contents of the annual report of insurance companies (Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag van verzekeraars [1]).

FINANCIAL REPORTING PROCESS

As NN Group N.V. is a consolidated subsidiary of ING Groep N.V. ("ING Group") its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by ING Group for its consolidated financial statements with respect to NN Group N.V. and the entities included in the latter's own consolidated financial statements.

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; and
- 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. As ING Group is subject to the US Sarbanes-Oxley Act, its Executive Board assessed the effectiveness of its internal control over financial reporting as of 31 December 2013, which was audited by ING Group's external auditor. For more information, please refer to the 2013 Annual Report of ING Group which is available on its website (www.ing.com).

BOARD COMPOSITION

ING Group aims to have an adequate and balanced composition of the Management Board and Supervisory Board of NN Group N.V. and ING Groep N.V. ("Boards"). Thereto, annually, the Supervisory Board assesses the composition of the Boards. In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. However, because of the fact that ING Group needs to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the above-mentioned gender balance in 2013. ING Group will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

EXTERNAL AUDITOR

At the annual General Meeting held on 14 May 2012, Ernst & Young Accountants LLP (EY) was appointed to audit the financial statements of ING Group, including but not limited to NN Group N.V., for the financial years 2012 and 2013, 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 of ING Group. In the 2013 annual General Meeting, the appointment of EY as auditor of ING Group was extended by two more years, i.e. for the financial years 2014 and 2015. ING Group started a project with the objective of changing its external audit firm as of the financial year 2016.

The external auditor may be questioned at the annual General Meeting in relation to its audit opinion on the annual accounts. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and of the Risk Committee functioning for NN Group N.V. as well, and attended and addressed the 2013 annual General Meeting, wherein the external auditor was questioned on the audit opinion.

New legislation on the accountancy profession (Wet op het accountantsberoep) came into force as of 1 January 2013 which prohibits certain services from being conducted by an external audit firm. The ING Group's policy on external auditor independence has been updated to reflect the new legislation on the accountancy profession as of 1 January 2013. The external auditor may only provide services to ING Group and its subsidiaries with the permission of the Audit Committee. ING Group provides the Audit Committee with a full overview of all services provided by the external auditor, including related fees, supported by sufficiently detailed information. This overview is periodically evaluated by the Audit Committee throughout the year.

[1] (1) Dutch Bulletin of Acts (Staatsblad) 2011, 396.

Corporate governance continued

After a maximum period of five years of performing the financial audit of NN Group N.V., the lead audit partners of the external audit firm and the audit partners responsible for reviewing the audits, have to be replaced by other partners of the external audit firm. The Audit Committee provides recommendations to the Supervisory Board regarding these replacements based, among other things, on an annual evaluation of the provided services. In line with this requirement, the lead audit partner of EY was succeeded after the year-end audit 2011. The rotation of other partners involved with the audit of the financial statements of ING is subject to applicable independence legislation.

DUTCH INSURERS' CODE

The Dutch Insurers' Code ("Insurers' Code") is applicable to the Dutch subsidiaries of NN Group N.V. pursuing insurance business. The Insurers' Code can be downloaded from the website of the Dutch Association of Insurers (www.verzekeraars.nl). However, insurance companies that are part of a group ("concern") can decide whether to apply all or parts of the Insurers' Code at the group level. Corporate governance related principles of the Insurers' Code are voluntarily applied at group level and the remuneration policy for its Management Board and Senior Management is compliant with these principles. The application of the Insurers' Code principles is described in the publication "Application of the Insurers' Code" available on the website of ING Group (www.ing.com).

AMSTERDAM, 17 MARCH 2014
THE MANAGEMENT BOARD NN GROUP N.V.

Conformity statement

The Management Board is required to prepare the Annual Accounts and the Annual Report of NN Group N.V. ("NN Group") for each financial year in accordance with applicable Dutch law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Management 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 judgements 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 or her knowledge:
- the NN Group N.V. 2013 Annual Accounts 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. 2013 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2013 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.

AMSTERDAM, 17 MARCH 2014
THE MANAGEMENT BOARD NN GROUP N.V.

Consolidated balance sheet of NN Group

as at 31 December

amounts in millions of euros	2013	2012	2011
Assets			
Cash and cash equivalents 2	**7,155**	5,389	11,577
Financial assets at fair value through profit or loss: 3			
– trading assets	**736**	586	534
– investments for risk of policyholders	**39,589**	98,765	116,438
– non-trading derivatives	**3,126**	5,107	7,285
– designated as at fair value through profit or loss	**482**	2,000	2,616
Available-for-sale investments 4	**61,014**	119,305	133,604
Loans and advances to customers 5	**25,319**	25,823	32,928
Reinsurance contracts 17	**252**	5,290	5,870
Investments in associates 6	**1,028**	1,352	1,526
Real estate investments 7	**764**	805	954
Property and equipment 8	**164**	338	469
Intangible assets 9	**392**	1,018	1,972
Deferred acquisition costs 10	**1,353**	4,549	10,204
Assets held for sale 11	**630**	61,691	
Other assets 12	**3,754**	6,735	9,631
Total assets	**145,758**	338,753	335,608
Equity 13			
Shareholder's equity (parent)	**14,227**	26,423	23,412
Minority interests	**68**	217	62
Total equity	**14,295**	26,640	23,474
Liabilities			
Subordinated loans 14	**2,892**	2,947	4,367
Debt securities in issue 15		1,910	3,436
Other borrowed funds 16	**4,817**	7,442	7,307
Insurance and investment contracts 17	**111,551**	229,950	278,833
Customer deposits and other funds on deposit 18	**5,769**		
Financial liabilities at fair value through profit or loss: 19			
– non-trading derivatives	**1,843**	3,258	4,404
Liabilities held for sale 11	**466**	55,655	
Other liabilities 20	**4,125**	10,951	13,787
Total liabilities	**131,463**	312,113	312,134
Total equity and liabilities	**145,758**	338,753	335,608

The amounts for 2011 and 2012 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section "Changes in accounting policies in 2013" on page 33.

The comparison of the Consolidated balance sheets is impacted by the transfer of ING U.S. to ING Groep N.V., the classification to continuing operations of NN Group's business in Japan (as of 2013) and the classification as held for sale of the insurance and investment management businesses in Asia (as of 2012) as disclosed in the section "Other significant changes in 2013" on page 35.

References relate to the notes starting on page 54. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of NN Group

for the year ended 31 December

amounts in millions of euros	2013	2013	2012	2012	2011	2011
Continuing operations						
Gross premium income 21		**9,530**		10,705		11,292
Investment income 22		**3,619**		3,739		3,483
Result on disposals of group companies 23		**–45**				–4
Gross commission income	**956**		924		1,337	
Commission expense	**–330**		–331		–700	
Commission income 24		**626**		593		637
Valuation results on non-trading derivatives 25		**–2,891**		–2,574		1,025
Foreign currency results and net trading income 26		**186**		539		–117
Share of result from associates 6		**97**		37		190
Other income 27		**39**		–22		110
Total income		**11,161**		13,017		16,616
Gross underwriting expenditure	**13,585**		15,867		13,444	
Investment result for risk of policyholders	**–4,930**		–5,517		–206	
Reinsurance recoveries	**–70**		–73		–81	
Underwriting expenditure 28		**8,585**		10,277		13,157
Intangible amortisation and other impairments 29		**11**		69		42
Staff expense 30		**1,178**		1,037		1,128
Interest expense 31		**591**		605		728
Other operating expense 32		**848**		1,274		1,093
Total expense		**11,213**		13,262		16,148
Result before tax from continuing operations		**–52**		–245		468
Taxation 39		**–50**		–113		15
Net result from continuing operations		**–2**		–132		453
Discontinued operations 33						
Net result from discontinued operations		**45**		839		–202
Net result from classification as discontinued operations		**–42**		–394		
Net result from disposal of discontinued operations		**17**		752		995
Total net result from discontinued operations		**20**		1,197		793
Net result from continuing and discontinued operations (before minority interests)		**18**		1,065		1,246

The amounts for 2012 and 2011 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page 33.

References relate to the notes starting on page 85. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of NN Group continued

for the year ended 31 December

amounts in millions of euros	2013	2012	2011
Net result from continuing and discontinued operations attributable to:			
Shareholder of the parent	10	1,038	1,226
Minority interests	8	27	20
	18	1,065	1,246
Net result from continuing operations attributable to:			
Shareholder of the parent	–18	–153	439
Minority interests	16	21	14
	–2	–132	453
Total net result from discontinued operations attributable to:			
Shareholder of the parent	28	1,191	787
Minority interests	–8	6	6
	20	1,197	793

	2013	2012	2011
Total amount of dividend paid (in millions of euros) 13	882	0	0

In 2013, the remaining interest in ING U.S., Inc. (“ING U.S.”) was transferred to ING Groep N.V. by way of dividend in kind. Reference is made to Note 53 “Other events” for more details on the transaction.

Consolidated statement of comprehensive income of NN Group

for the year ended 31 December

amounts in millions of euros	2013	2012	2011
Net result from continuing and discontinued operations	**18**	1,065	1,246
Items that will not be reclassified to the profit and loss account:			
Remeasurement of the net defined benefit asset/liability 38	**–42**	–910	430
Unrealised revaluations property in own use	**–1**	–13	2
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised revaluations available-for-sale investments and other	**–4,678**	5,084	1,997
Realised gains/losses transferred to the profit and loss account	**90**	–367	473
Changes in cash flow hedge reserve	**–832**	665	1,316
Transfer to insurance liabilities/DAC	**2,154**	–2,181	–2,004
Other revaluations		10	36
Exchange rate differences	**–744**	–370	240
Total comprehensive income	**–4,035**	2,983	3,736
Comprehensive income attributable to:			
Shareholder of the parent	**–3,940**	2,949	3,718
Minority interests	**–95**	34	18
	–4,035	2,983	3,736

The amounts for 2012 and 2011 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page 33.

Reference is made to Note 39 “Taxation” for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of cash flows of NN Group

for the year ended 31 December

amounts in millions of euros		2013	2012	2011
Result before tax [1]		**103**	1,044	1,254
Adjusted for:	– depreciation	**144**	171	191
	– deferred acquisition costs and value of business acquired	**1,289**	–484	248
	– increase in provisions for insurance and investment contracts	**–6,604**	–3,178	4,389
	– other	**1,275**	3,177	–2,362
Taxation paid		**–268**	–3	–206
Changes in:	– trading assets	**–146**	–70	87
	– non-trading derivatives	**–631**	430	1,142
	– other financial assets at fair value through profit or loss	**1,977**	–2,313	42
	– loans and advances to customers	**–192**	4,397	–1,268
	– other assets	**1,248**	2,049	944
	– customer deposits and other funds on deposits	**2,066**		
	– other financial liabilities at fair value through profit or loss	**–3,623**	–1,590	–280
	– other liabilities	**–4,885**	–2,907	–2,113
Net cash flow from operating activities		**–8,247**	723	2,068
Investments and advances:	– group companies 49	**–23**		
	– associates	**–48**	–6	–105
	– available-for-sale investments	**–46,964**	–72,358	–68,540
	– real estate investments	**–200**	–56	–23
	– property and equipment	**–30**	–60	–77
	– investments for risk of policyholders	**–47,102**	–67,986	–57,130
	– other investments	**–4,563**	–85	–77
Disposals and redemptions:	– group companies 49	**2,548**	1,332	2,736
	– associates	**323**	63	120
	– available-for-sale investments	**48,966**	63,978	63,616
	– real estate investments	**229**	71	35
	– property and equipment	**3**	18	15
	– investments for risk of policyholders	**54,979**	72,201	61,898
	– other investments	**8**	7	9
Net cash flow from investing activities		**8,126**	–2,881	2,477
Proceeds from issuance of subordinated loans				450
Repayments of subordinated loans			–1,381	–455
Proceeds from borrowed funds and debt securities		**12,791**	32,717	41,920
Repayments of borrowed funds and debt securities		**–13,854**	–34,069	–43,471
Capital injection		**1,330**		
Payments to acquire treasury shares			–17	–13
Sales of treasury shares		**10**	13	11
Proceeds of IPO ING U.S. 53		**1,062**		
Dividend paid 13		**–882**		
Net cash flow from financing activities		**457**	–2,737	–1,558
Net cash flow 35		**336**	–4,895	2,987
Cash and cash equivalents at beginning of year		**6,717**	11,577	8,646
Effect of exchange rate changes on cash and cash equivalents		**182**	35	–56
Cash and cash equivalents at end of year 2		**7,235**	6,717	11,577

[1] Includes result before tax from continuing operations of EUR –52 million (2012: EUR –245 million; 2011: EUR 468 million) and result before tax from discontinued operations of EUR 155 million (2012: EUR 1,289 million; 2011: EUR 786 million). Result after tax from discontinued operations is EUR 20 million (2012: EUR 1,197 million; 2011: EUR 793 million).

The amounts for 2012 and 2011 have been restated to reflect the change in accounting policy for defined benefit plans as disclosed in the section “Changes in accounting policies in 2013” on page 33.

References relate to the notes starting on page 96. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of NN Group

amounts in millions of euros	Share capital [1]	Share premium	Reserves	Total share-holder's equity (parent)	Minority interest	Total equity
Balance as at 1 January 2011 (before change in accounting policy)	0	17,750	2,409	20,159	111	20,270
Effect of change in accounting policy [2]			–520	–520		–520
Balance as at 1 January 2011 (after change in accounting policy)	0	17,750	1,889	19,639	111	19,750
Remeasurement of the net defined benefit asset/liability			430	430		430
Unrealised revaluations property in own use			2	2		2
Unrealised revaluations available-for-sale investments and other			1,996	1,996	1	1,997
Realised gains/losses transferred to profit and loss account			473	473		473
Changes in cash flow hedge reserve			1,316	1,316		1,316
Transfer to insurance liabilities/DAC			–2,004	–2,004		–2,004
Other revaluations			36	36		36
Exchange rate difference			243	243	–3	240
Total amount recognised directly in equity (Other comprehensive income)	0	0	2,492	2,492	–2	2,490
Net result from continuing and discontinued operations			1,226	1,226	20	1,246
Total comprehensive income	0	0	3,718	3,718	18	3,736
Employee stock option and share plans			55	55		55
Changes in composition of the group and other changes					–43	–43
Dividend					–34	–34
Capital injection					10	10
Balance as at 31 December 2011	0	17,750	5,662	23,412	62	23,474
Remeasurement of the net defined benefit asset/liability			–910	–910		–910
Unrealised revaluations property in own use			–13	–13		–13
Unrealised revaluations available-for-sale investments and other			5,076	5,076	8	5,084
Realised gains/losses transferred to profit and loss account			–367	–367		–367
Changes in cash flow hedge reserve			665	665		665
Transfer to insurance liabilities/DAC			–2,181	–2,181		–2,181
Other revaluations			10	10		10
Exchange rate difference			–369	–369	–1	–370
Total amount recognised directly in equity (Other comprehensive income)	0	0	1,911	1,911	7	1,918
Net result from continuing and discontinued operations			1,038	1,038	27	1,065
Total comprehensive income	0	0	2,949	2,949	34	2,983
Employee stock option and share plans			62	62		62
Changes in composition of the group and other changes					127	127
Dividend					–6	–6
Balance as at 31 December 2012	0	17,750	8,673	26,423	217	26,640

(1) NN Group has an issued share capital of EUR 45,000. Reference is made to Note 13 “Equity”.
(2) The change in accounting policy for defined benefit plans is disclosed in the section “Changes in accounting policies in 2013” on page 33.

Consolidated statement of changes in equity of NN Group continued

amounts in millions of euros	Share capital [1]	Share premium	Reserves	Total share-holder's equity (parent)	Minority interest	Total equity
Balance as at 31 December 2012		17,750	8,673	26,423	217	26,640
Remeasurement of the net defined benefit asset/liability 18			–42	–42		–42
Unrealised revaluations property in own use			–1	–1		–1
Unrealised revaluations available-for-sale investments and other			–4,672	–4,672	–6	–4,678
Realised gains/losses transferred to profit and loss			90	90		90
Changes in cash flow hedge reserve			–832	–832		–832
Transfer to insurance liabilities/DAC			2,154	2,154		2,154
Exchange rate difference			–647	–647	–97	–744
Total amount recognised directly in equity (Other comprehensive income)	0	0	–3,950	–3,950	–103	–4,053
Net result from continuing and discontinued operations			10	10	8	18
Total comprehensive income	0	0	–3,940	–3,940	–95	–4,035
Capital contribution		1,330		1,330		1,330
Employee stock option and share plans			37	37	6	43
Changes in composition of the group and other changes		–6,826	43	–6,783	–3,010	–9,793
Impact of IPO ING U.S. 53			–1,958	–1,958	2,954	996
Dividend 13		–649	–233	–882	–4	–886
Balance as at 31 December 2013	0	11,605	2,622	14,227	68	14,295

[1] NN Group has an issued share capital of EUR 45,000. Reference is made to Note 13 “Equity”.

Notes to the Consolidated annual accounts of NN Group

amounts in millions of euros, unless stated otherwise

ESTABLISHMENT OF NN GROUP

Until recently, ING Verzekeringen N.V. ("ING Insurance") was the holding company of the insurance and investment management activities of ING. As such, ING Insurance prepared Consolidated annual accounts under IFRS-EU that included ING Insurance and all its subsidiaries. ING Insurance was a wholly-owned subsidiary of ING Insurance Topholding N.V. ("ING Topholding"), a wholly-owned subsidiary of the ultimate parent ING Groep N.V. ING Topholding was a holding company with no other assets, liabilities and activities than its 100% holding in ING Insurance.

On 28 February 2014, before the finalisation of the 2013 Consolidated annual accounts, ING Insurance and ING Topholding legally merged. Through this merger, the legal entity ING Verzekeringen N.V. ceased to exist. The legal merger became effective on 1 March 2014 and on that date the merged entity was renamed NN Group N.V. ("NN Group").

The merged entity NN Group N.V. is in substance a continuation of ING Insurance. As of 2013, NN Group prepares Consolidated annual accounts under IFRS-EU in which all assets and liabilities of ING Insurance and its subsidiaries are included at their existing carrying values. As a result, the financial position and results of NN Group are not significantly different from what these would have been for ING Insurance.

AUTHORISATION OF ANNUAL ACCOUNTS

The Consolidated annual accounts of NN Group N.V. ("NN Group") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Management Board NN Group on 17 March 2014. The Management Board NN Group may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these. NN Group N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of NN Group are described in "ING and NN Group at a glance" on page 4.

1 ACCOUNTING POLICIES

NN Group applies International Financial Reporting Standards as adopted by the European Union ("IFRS-EU"). In the annual accounts the term "IFRS-EU" is used to refer to these standards, including the decisions NN Group made with regard to the options available under IFRS-EU.

IFRS-EU provides a number of options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related NN Group accounting policy, are summarised as follows:

- Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts. NN Group operates in different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group for example applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts;
- NN Group's accounting policy for Real estate investments is fair value, with changes in the fair value reflected immediately in the Consolidated profit and loss account;
- NN Group's accounting policy for Property for own use is fair value, with changes in the fair value reflected, after tax, in the revaluation reserve in equity ("Other comprehensive income"). A net negative revaluation on individual properties is reflected immediately in the Consolidated profit and loss account; and
- NN Group's accounting policy for joint ventures is proportionate consolidation.

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

CHANGES IN ACCOUNTING POLICIES IN 2013

The following new and/or amended IFRS-EU standards were implemented by NN Group in 2013:

- Amendments to IAS 19 "Employee Benefits";
- Amendments to IAS 1 "Presentation of Financial Statements";
- Amendments to IFRS 7 "Financial instruments: Disclosures"; and
- IFRS 13 "Fair Value Measurement".

Notes to the Consolidated annual accounts of NN Group continued

Amendments to IAS 19 “Employee Benefits”

The most significant change in the revised IAS 19 “Employee Benefits” relates to the accounting for defined benefit pension obligations and the corresponding plan assets. The amendments require immediate recognition in Other comprehensive income (i.e. in equity) of changes in the defined benefit obligation and in the fair value of plan assets due to actuarial gains and losses. The deferral of actuarial gains and losses through the “corridor approach”, which was applied under the previous version of IAS 19 until the end of 2012, is no longer allowed. As a related consequence, deferred actuarial gains and losses are no longer released to the Consolidated profit and loss account upon curtailment. Furthermore, the amendments require the return on plan assets for the purpose of calculating the pension expense to be determined using a high-quality corporate bond rate, equal to the discount rate of the defined benefit obligation; until the end of December 2012 management’s best estimate was applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 resulted in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013. As a result, Shareholder’s equity decreased with EUR –0.9 billion (after tax) (EUR –1.2 billion before tax) at 1 January 2013. The recognition of actuarial gains and losses in equity will create volatility in Total equity going forward. The changes in IAS 19 are implemented retrospectively; as a result, comparative amounts for previous periods have been restated and are presented as if the new requirements were always applied.

The impact of the changes in IAS 19 for the year 2013 mainly relates to the recognition of the remeasurement of the Net defined benefit asset/liability in equity. As disclosed in Note 13 “Equity” the amount of the Net defined benefit asset/liability remeasurement reserve is EUR –1,042 million at 31 December 2013 (31 December 2012: EUR –1,000 million; 31 December 2011: EUR –90 million). Without the changes in IAS 19, this negative reserve would not have reduced equity.

The impact of changes in IAS 19 on previous annual reporting periods is as follows:

Impact on Shareholder’s equity

	31 December 2012	31 December 2011	1 January 2011
Shareholder’s equity (before change in accounting policy)	27,298	23,475	20,159
Change in Other assets – net defined benefit asset	–805	221	–451
Change in Other liabilities – net defined benefit liability	–417	–352	–278
Change in Liabilities held for sale	–4		
Change in net defined benefit asset/liability before tax	–1,226	–131	–729
Tax effect	351	68	209
Shareholder’s equity (after change in accounting policy)	26,423	23,412	19,639

Impact on Net result

	2012	2011
Net result from continuing operations (before change in accounting policy)	–194	421
Impact on staff expenses – Pension and other staff-related benefit costs	92	25
Tax effect	–22	–7
	–124	439
Discontinued operations after tax	1,189	807
Net result from continuing and discontinued operations (after change in accounting policy)	1,065	1,246

Impact on Other comprehensive income

	2012	2011
Total amount recognised directly in equity (before change in accounting policy)	2,828	2,059
Remeasurement of the net defined benefit asset/liability	–1,234	581
Changes in the composition of the group and other changes	2	–533
Tax effect	322	–137
Total amount recognised directly in equity (after change in accounting policy)	1,918	1,970

Amendments to IAS 1 “Presentation of Financial Statements”

The amendments to IAS 1 “Presentation of Financial Statements” resulted in changes to the presentation in the Consolidated statement of other comprehensive income, including a split of Other comprehensive income into items that may be recognised in the profit and loss account in future periods and items that will never be recognised in the Consolidated profit and loss account. There was no impact on Shareholder’s equity, Net result and/or Other comprehensive income.

Notes to the Consolidated annual accounts of NN Group continued

Amendments to IFRS 7 “Financial instruments: Disclosures”
The amendments to IFRS 7 “Financial instruments: Disclosures” introduced additional disclosures on offsetting (netting) of financial instruments in the Consolidated balance sheet and on the potential effect of netting arrangements. There was no impact on Shareholder’s equity, Net result and/or Other comprehensive income. Reference is made to Note 46 “Offsetting financial assets and liabilities”.

IFRS 13 “Fair Value Measurement”
IFRS 13 “Fair Value Measurement” brings together in one standard all guidance on how to determine fair value. It does not change the scope of assets/liabilities that are measured at fair value. NN Group’s interpretation of fair value measurement is not significantly different from the guidance in IFRS 13. Therefore, the implementation of IFRS 13 “Fair Value Measurement” at 1 January 2013 did not have a significant impact on Shareholder’s equity, Net result and/or Other comprehensive income. In addition, IFRS 13 introduces an extended scope for the disclosure of the fair value by level of fair value hierarchy for non-financial assets and liabilities and financial instruments not measured at fair value. Reference is made to Note 40 “Fair value of assets and liabilities”.

OTHER SIGNIFICANT CHANGES IN 2013
The comparison of balance sheet items between 31 December 2013 and 31 December 2012 is impacted by the Initial Public Offering (“IPO”) of ING U.S., Inc. the U.S.-based retirement, investment and insurance business (“ING U.S.”),the transfer of ING U.S. to ING Groep N.V., the classification to continuing operations of ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING RE (“NN Group’s business in Japan”), the divestment of companies as disclosed in Note 49 “Companies and businesses acquired and divested” and by the held for sale classification as disclosed in Note 11 “Assets and liabilities held for sale” and Note 33 “Discontinued operations”.

Changes in assets and liabilities due to the transfer of ING U.S., the classification to continuing operations of NN Group’s business in Japan and as a result of the classification of other disposal groups as held for sale are included in the notes in the line “Changes in the composition of the group and other changes”.

ING U.S.
In May 2013, ING U.S. was successfully listed on the New York Stock Exchange (NYSE). As a result of the IPO, ING’s ownership interest in ING U.S. was reduced from 100% to 71.25%. At 30 September 2013, the remaining interest in ING U.S. was transferred to ING Groep N.V. by way of dividend in kind. As of the date of transfer, ING U.S. ceased to be consolidated; the results for the period until transfer are presented as discontinued operations.

Reference is made to Note 53 “Other events”.

NN GROUP’S BUSINESS IN JAPAN
After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that a standalone divestment of ING Life Japan, including its Corporate Owned Life Insurance (COLI) and Closed Block VA businesses, is not feasible in a manner that would appropriately meet the demands of regulators and other stakeholders in ING Group and ING Life Japan. Therefore, ING Life Japan will be combined ING’s European insurance and investment management businesses in the base case IPO of NN Group in 2014. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re (“NN Group’s business in Japan”) are no longer classified as held for sale and discontinued operations. Reference is made to Note 53 “Other events”.

Based on the above events, changes were made to the segment reporting as disclosed in Note 36 “Segments”.

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

UPCOMING CHANGES AFTER 2013
The following new or revised standards and interpretations will become effective for NN Group from 1 January 2014, if and when endorsed by the EU:
- IFRS 10 “Consolidated Financial Statements”;
- IFRS 11 “Joint Arrangements” and amendments to IAS 28 “Investments in Associates and Joint Ventures”;
- IFRS 12 “Disclosure of Interests in Other Entities”;
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Amendments to IAS 32 “Presentation – Offsetting Financial Assets and Financial Liabilities”;
- Amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”;
- IFRIC 21 “Levies”; and
- Amendments to IAS 36 “Recoverable amount disclosures for non-financial assets”.

The significant upcoming changes in IFRS-EU after 2013 are explained below.

IFRS 10 "Consolidated Financial Statements"
IFRS 10 "Consolidated Financial Statements" introduces amendments to the criteria for consolidation. Similar to the requirements that are applicable until the end of 2013, all entities controlled by NN Group will be included in the Consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The requirements of IFRS 10 are generally similar to the policies and interpretations that NN Group applied prior to the introduction of IFRS 10. Therefore the implementation of the standard as at 1 January 2014 will not have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and Joint Ventures"
IFRS 11 "Joint Arrangements" and the related amendments to IAS 28 "Investments in Associates and Joint Ventures" eliminate the proportionate consolidation method for joint ventures that was applied by NN Group. Under the new requirements, all joint ventures will be reported using the equity method of accounting (similar to the accounting that is already applied for Investments in associates). The implementation of IFRS 11 as at 1 January 2014 will not have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income. The impact of the application of IFRS 11 "Joint Arrangements" is included in the table below.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 "Disclosure of Interests in Other Entities" introduces extended disclosure requirements for subsidiaries, associates, joint ventures and structured entities. The implementation of IFRS 12 will not have an impact on Shareholder's equity, Net result and/or Other comprehensive income.

Summary of impact as at 1 January 2014
The impact of the above mentioned changes of IFRS requirements that are implemented as of 1 January 2014 is summarised as follows:

Upcoming changes in IFRS-EU in 2014

	IFRS 11 "Joint Arrange-ments"
Assets held for sale	–442
Assets – other	–1
Impact on Total assets	–443
Liabilities held for sale	–442
Liabilities – other	–1
Impact on Total liabilities	–443
Impact on Shareholder's equity	0

IFRS 9 "Financial Instruments"
IFRS 9 "Financial Instruments" was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. Further amendments are expected to be finalised in 2014. The current version of IFRS 9 does not include a mandatory effective date. An effective date will be added when all phases of the project are complete and a final version of IFRS 9 is issued. The mandatory effective date of IFRS 9 is expected to be 2018. IFRS 9 is also not yet endorsed by the EU. Implementation of IFRS 9, if and when finalised and endorsed by the EU, may have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

Accounting for GMDB in Japan Closed Block VA
NN Group applies fair value accounting to the reserves for Guaranteed Minimum Death Benefits (GMDB) of the Japan Closed Block VA from 1 January 2014. Reference is made to Note 55 "Subsequent events".

Notes to the Consolidated annual accounts of NN Group continued

CRITICAL ACCOUNTING POLICIES

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

INSURANCE PROVISIONS, DEFERRED ACQUISITION COSTS (DAC) AND VALUE OF BUSINESS ACQUIRED (VOBA)

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

The use of different assumptions could have a significant effect on insurance provisions and underwriting expenditure. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

In addition, the adequacy of insurance provisions, net of DAC and VOBA, is evaluated regularly. The test involves comparing the established insurance provision with current best estimate assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions in this test could lead to a different outcome.

Insurance provisions also include the impact of minimum guarantees which are contained within certain variable annuity products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions about these factors could have a significant effect on insurance provisions and underwriting expenditure.

The process of defining methodologies and assumptions for insurance provisions, DAC and VOBA is governed by risk management of NN Group as described in the "Risk management" section.

Reference is made to the "Risk management" section for a sensitivity analysis of Net result to insurance, interest rate, equity, foreign currency and real estate risks. These sensitivities are based on changes in assumptions that management considers reasonably likely at the balance sheet date.

FAIR VALUE OF REAL ESTATE

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

Market conditions in recent years have led to a reduced level of real estate transactions. Consequently, the fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value. Transaction values were significantly impacted by low volumes of actual transactions. As a result comparable market transactions have been used less in valuing NN Group's real estate investments by independent qualified valuers. More emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

Reference is made to Note 40 “Fair value of assets and liabilities” for more disclosure on fair value at balance sheet date of real estate investments.

The use of different assumptions and techniques could produce significantly different valuations. To illustrate the uncertainty of the real estate investments valuation, a sensitivity analysis on the changes in fair value of real estate is provided in the “Risk management” section.

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

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

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

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

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the profit and loss account. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 40 “Fair value of assets and liabilities” and the “Risk management” section for the basis of the determination of the fair value of financial instruments and related sensitivities.

IMPAIRMENTS
Impairment evaluation is a complex process that inherently involves significant judgements and uncertainties that may have an impact on NN Group’s Consolidated annual accounts. Impairments are especially relevant in two areas: Available-for-sale debt and equity securities and Goodwill/Intangible assets.

All debt and equity securities (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. “Significant” and “prolonged” are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers. Upon impairment, the full difference between the (acquisition) cost and fair value is removed from equity and recognised in Net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed.

Impairments on other debt instruments (Loans and advances to customers) are part of the loan loss provision as described below.

Impairment reviews with respect to goodwill and intangible assets are performed at least annually, and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount.

Notes to the Consolidated annual accounts of NN Group continued

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

EMPLOYEE BENEFITS
Group companies operate defined benefit retirement plans covering a significant number of NN Group's employees.

The net defined benefit asset/liability recognised in the balance sheet in respect of the defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

The determination of the defined benefit obligation is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates (in particular based on market yields on high quality corporate bonds), rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs and consumer price index and are updated on a quarterly basis.

The actuarial assumptions may differ significantly from the actual parameters due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the net defined benefit asset/liability and future pension costs. Reference is made to Note 38 "Pension and other post-employment benefits" for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION
NN Group comprises NN Group N.V. and all its subsidiaries. The consolidated financial statements of NN Group comprise the accounts of NN Group N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 50 "Principal subsidiaries".

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether NN Group controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both NN Group's financial interests for own risk and its role as investment manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies and assume all risks and benefits on these investments.

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in Net result.

A subsidiary which NN Group has agreed to sell but is still legally owned by NN Group may still be controlled by NN Group at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as held for sale if certain conditions are met.

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

NN Group N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid–up capital, and reserves required by law. Additionally, certain group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

NN Group's interests in jointly controlled entities are accounted for using proportionate consolidation. NN Group proportionately consolidates its share of the joint ventures' individual income and expenses, assets and liabilities, and cash flows on a line-by-line basis with similar items in NN Group's financial statements. NN Group recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. NN Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by NN Group from the joint venture until it resells the assets to a third party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Disposal groups classified as held for sale or discontinued operations

Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to their fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognised through a reduction of the carrying value of any goodwill related to the disposal group or the carrying value of certain other non-current non-financial assets to the extent that the carrying value of those assets exceeds their fair value. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognised upon classification as held for sale, but is recognised as part of the result on disposal if and when a divestment transaction occurs.

Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

When a group of assets that is classified as held for sale or is sold also represents a major line of business or geographical area the disposal group classifies as discontinued operations. In the Consolidated profit and loss account, the income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of result after tax for both the current year and for comparative years.

USE OF ESTIMATES AND ASSUMPTIONS

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

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

SEGMENT REPORTING

A segment is a distinguishable component of NN Group, engaged in providing products or services, subject to risks and returns that are different from those of other segments. A geographical area is a distinguishable component of NN Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

ANALYSIS OF INSURANCE BUSINESS

Where amounts are analysed into “life” or “non-life”, health and disability insurance business which is similar in nature to life insurance business is included in “life”.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of NN Group's entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in euros, which is NN Group's functional and presentation currency.

Transactions and balances

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

Exchange rate differences on non-monetary items, measured at fair value through profit or loss are reported as part of the fair value gain or loss. Non-monetary items are translated at each date the fair value is determined. Exchange rate differences on non-monetary items measured at fair value through OCI are included in the revaluation reserve in equity.

Notes to the Consolidated annual accounts of NN Group continued

Exchange rate differences in the profit and loss account are generally included in Net trading income. Reference is made to Note 26 “Foreign currency results and Net trading income”, which discloses the amounts included in the profit and loss account. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in Result on disposals of group companies. Reference is also made to Note 13 “Equity”, which discloses the amounts included in the profit and loss account.

Group companies
The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation, exchange rate differences arising from the translation of a monetary item that form part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to Shareholder’s equity. When a foreign operation is sold the corresponding exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
The fair value of financial instruments are based on unadjusted quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by NN Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. NN Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Reference is made to Note 40 “Fair value of assets and liabilities” for the basis of determination of the fair value of financial instruments.

RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS
Recognition of financial assets
All purchases and sales of financial assets classified as fair value through profit and loss (excluding investments for risk of policyholders) or available-for-sale that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at trade date, which is the date on which NN Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Group receives or delivers the asset.

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

Financial liabilities
Debt securities in issue are recognised and derecognised at trade date.

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include: equity securities, debt securities, derivatives and other, and comprise the following sub-categories: trading assets, non-trading derivatives, financial assets designated at fair value through profit or loss by management, and investments for risk of policyholders.

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

Investments for risk of policyholders are investments against insurance liabilities for which all changes in the fair value of invested assets are offset by similar changes in insurance liabilities.

Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit or loss is recognised in Investment income in the profit and loss account using the effective interest method.

Dividend income from equity instruments classified as at fair value through profit or loss is generally recognised in Investment income in the profit and loss account when dividend has been declared. Investment result from investments for risk of policyholders is recognised in Investment result for risk of policyholders. For derivatives reference is made to the “Derivatives and hedge accounting” section. For all other financial assets classified as at fair value through profit or loss, changes in fair value are recognised in Net trading income.

Available-for-sale investments

Investments (including loans quoted in active markets) classified as available-for-sale are initially recognised at fair value plus transaction costs. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

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

Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as Investment income. For impairments of available-for-sale financial assets reference is made to the section “Impairments of other financial assets”. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Loans and receivables

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

Notes to the Consolidated annual accounts of NN Group continued

Credit risk management classification
Credit risk management disclosures are provided in the “Risk management” section. The relationship between credit risk classifications in that section and the Consolidated balance sheet classifications above is explained below:

- Lending risk arises when NN Group grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the balance sheet classification Loans and advances to customers and off balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with NN Group’s investment portfolio and mainly relates to the balance sheet classification Available-for-sale investments;
- Money market risk arises when NN Group places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the balance sheet classifications Cash and cash equivalents and Loans and advances to customers;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and NN Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the balance sheet classification Financial assets at fair value through profit or loss (trading assets and non-trading derivatives); and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until NN Group has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the balance sheet as Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and Available-for-sale investments.

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 47 “Contingent liabilities and commitments” for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which NN Group manages credit risk and determines credit risk exposures for that purpose is explained in the “Risk management” section.

DERIVATIVES AND HEDGE ACCOUNTING
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. The fair value is obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Some credit protection contracts that take the legal form of a derivative, such as certain credit default swaps, are accounted for as financial guarantees.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

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

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

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

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

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

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

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when NN Group has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)
NN Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. NN Group has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by NN Group's credit risk systems.

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

Notes to the Consolidated annual accounts of NN Group continued

NN Group does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

NN Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If NN Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (“Loan loss provision”) and the amount of the loss is recognised in the profit and loss account under “Investment income”. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a “loss confirmation period” to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by NN Group’s credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in NN Group’s loan loss provision. Although the loss confirmation periods are inherently uncertain, NN Group applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by the NN Group’s account managers. Generally, the frequency increases in relation to the size of the borrower. Loss confirmation periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

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

When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the profit and loss account.

IMPAIRMENT OF OTHER FINANCIAL ASSETS

At each balance sheet date NN Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. “Significant” and “prolonged” are interpreted on a case-by-case basis for specific equity securities; generally 25% and 6 months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in Net result – is removed from equity and recognised in the profit and loss account. Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

INVESTMENTS IN ASSOCIATES

Associates are all entities over which NN Group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

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

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting.

NN Group's investment in associates (net of any accumulated impairment loss) includes goodwill identified on acquisition. NN Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When NN Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, NN Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between NN Group and its associates are eliminated to the extent of NN Group's interest in the associates. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by NN Group. The reporting dates of all significant associates are consistent with the reporting date of NN Group.

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

REAL ESTATE INVESTMENTS

Real estate investments are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sale proceeds and carrying value is recognised in the profit and loss account.

The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions and disposals made by NN Group are monitored as part of the validation procedures to test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value is based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

NN Group owns a real estate portfolio, diversified by region, by investment segment (Office, Retail and Residential) and by investment type. The valuation of different investments is performed using different discount rates ("yields"), dependent on specific characteristics of each property, including occupancy, quality of rent payments and specific local market circumstances. For NN Group's main direct properties in its main locations, the yields applied in the 2013 year-end valuation generally are in the range of 5% to 8%.

The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment.

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

For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

Notes to the Consolidated annual accounts of NN Group continued

PROPERTY AND EQUIPMENT

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in Shareholder's equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

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

Property obtained from foreclosures

Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets – Property development and obtained from foreclosures.

Property under development

Property developed and under development for which NN Group has the intention to sell the property after its completion is included in Other assets – Property development and obtained from foreclosures.

Property developed and under development for which NN Group has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and NN Group's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on sale date of the property). Impairment is recognised if the estimated selling price in the ordinary course of business, less applicable variable selling expenses is lower than carrying value.

Property under development for which NN Group has the intention to sell the property under development after its completion and where there is a specifically negotiated contract, is valued using the percentage of completion method (pro rata profit recognition). The stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in the profit and loss account) if NN Group has the intention to recognise the property under development after completion as real estate investments.

Equipment

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

Disposals

The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account under Other income.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined at the weighted average cost of capital of the project.

LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date.

NN Group as the lessee

The leases entered into by NN Group are primarily operating leases. The total payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisitions and goodwill

NN Group's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS's, taking into account the initial accounting period below. Changes in the fair value of the contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, NN Group's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date NN Group obtains control) and the resulting gain or loss, if any, is recognised in the profit and loss account. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the profit and loss account, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as Other operating expenses.

Until 2009, before IFRS 3 "Business Combinations" was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition-related costs were considered to be part of the total consideration.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Annual Accounts can be limited. The initial accounting shall be completed within a year after acquisition.

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in Shareholder's equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level at which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the reporting units (including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Adjustments to the fair value at the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the profit and loss account.

Computer software

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

Value of business acquired (VOBA)

VOBA is an asset that represents the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of deferred acquisition costs as described in the section "Deferred acquisition costs".

Other intangible assets

Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

DEFERRED ACQUISITION COSTS

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

Notes to the Consolidated annual accounts of NN Group continued

For traditional life insurance contracts, certain types of flexible life insurance contracts and non-life contracts, DAC is amortised over the premium payment period in proportion to the premium revenue recognised.

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised. The estimates and the assumptions are reassessed at the end of each reporting period. Higher/lower expected profits (e.g. reflecting stock market performance or a change in the level of assets under management) may cause a lower/higher balance of DAC due to the catch-up of amortisation in previous and future years. This process is known as DAC unlocking. The impact of the DAC unlocking is recognised in the profit and loss account of the period in which the unlocking occurs.

DAC is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the provision for life insurance liabilities and VOBA. The test for recoverability is described in the section "Insurance, Investment and Reinsurance Contracts".

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

TAXATION

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

Deferred income tax

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: Other borrowed funds, debt securities in issue and subordinated loans. Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

Financial liabilities at fair value through profit or loss

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

INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

Provisions for liabilities under insurance contracts are established in accordance with IFRS 4 "Insurance Contracts". Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group for example applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts.

Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU.

Notes to the Consolidated annual accounts of NN Group continued

In addition, for certain specific products or components thereof, NN Group applies the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan.

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

Provision for life insurance
The Provision for life insurance is generally calculated on the basis of a prudent prospective actuarial method, taking into account the conditions for current insurance contracts. Specific methodologies may differ between business units as they may reflect local regulatory requirements and local practices for specific product features in the local markets.

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

Insurance provisions for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders. Certain variable annuity products contain minimum guarantees on the amounts payable upon death and/or maturity. The insurance provisions include the impact of these minimum guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

The as yet unamortised interest rate rebates on periodic and single premium contracts are deducted from the Provision for life insurance. Interest rate rebates granted during the year are capitalised and amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

Provision for unearned premiums and unexpired insurance risks
The provision is calculated in proportion to the unexpired periods of risk. For insurance policies covering a risk increasing during the term of the policy at premium rates independent of age, this risk is taken into account when determining the provision. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision
The Claims provision is calculated either on a case-by-case basis or by approximation on the basis of experience. Provisions have also been made for claims incurred but not reported (IBNR) and for future claims handling expenses. The adequacy of the Claims provision is evaluated each year using standard actuarial techniques. In addition, “IBNR” reserves are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to NN Group.

Deferred profit sharing
For insurance contracts with discretionary participation features a deferred profit sharing amount is recognised for the full amount of the unrealised revaluation on allocated investments. Upon realisation, the profit sharing on unrealised revaluations is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing amount is reduced by the actual allocation of profit sharing to individual policyholders.

The change in the deferred profit sharing amount on unrealised revaluation (net of deferred tax) is recognised in equity in the revaluation reserve.

Provisions for life insurance for risk of policyholders
For investment contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the related investments.

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

Notes to the Consolidated annual accounts of NN Group continued

Adequacy test
The adequacy of the provision for life insurance, net of unamortised interest rate rebates, DAC and VOBA (the net insurance liabilities), is evaluated regularly by each business unit for the business originated in that business unit. The test considers current estimates of all contractual and related cash flows, and future developments. It includes investment income on the same basis as it is included in the profit and loss account.

If, for any business unit, it is determined using a best estimate (50%) confidence level, that a shortfall exists, and there are no offsetting amounts within other business units in the same segment (Business Line), the shortfall is recognised immediately in the profit and loss account.

If, for any business unit, the net insurance liabilities are not adequate using a prudent (90%) confidence level, but there are offsetting amounts within other business units, then the business unit is allowed to take measures to strengthen the net insurance liabilities over a period no longer than the expected life of the policies. To the extent that there are no offsetting amounts within other business units, any shortfall at the 90% confidence level is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be adequate at above the 90% confidence level, no reduction in the net insurance liabilities is recognised.

The adequacy test continues to be applied to businesses that are presented as discontinued operations but have not been divested yet; the relevant businesses continue to be evaluated as part of the adequacy test of the business line in which these were included before classification as discontinued operations.

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

OTHER LIABILITIES
Employee benefits – pension obligations
Defined benefit plans
The net defined benefit asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the expected return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholder's equity and/or Net result, include mainly:
- expected return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the profit and loss account; and
- remeasurements which are recognised in Other comprehensive income (equity).

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholder's equity and/or Net result, include mainly:
- service cost which are recognised as staff costs in the profit and loss account;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the profit and loss account; and
- remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in Other comprehensive income are not recycled to the profit and loss account. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the profit and loss account when the curtailment or settlement occurs.

Notes to the Consolidated annual accounts of NN Group continued

The recognition of a net defined benefit asset in the consolidated balance sheet is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans
For defined contribution plans, NN Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. NN Group has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations
Some NN Group companies provide post-employment healthcare and other benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Other provisions
A provision involves a present obligation arising from past events, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Reorganisation provisions include employee termination benefits when NN Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

INCOME RECOGNITION

Gross premium income
Premiums from life insurance policies are recognised as income when due from the policyholder. For non-life insurance policies, gross premium income is recognised on a pro-rata basis over the term of the related policy coverage. Receipts under investment contracts are not recognised as gross premium income.

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

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the “clean fair value” are included in Net trading income and Valuation results on non-trading derivatives.

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

EXPENSE RECOGNITION

Expenses are recognised in the profit and loss account as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Notes to the Consolidated annual accounts of NN Group continued

Share-based payments
Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. Rights granted will remain valid until the expiry date, even if the share-based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

GOVERNMENT GRANTS
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the profit and loss account.

FIDUCIARY ACTIVITIES
NN Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of NN Group.

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

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

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

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is accounted separately for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

Notes to the Consolidated annual accounts of NN Group continued

BALANCE SHEET
ASSETS
2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2013	2012	2011
Cash and bank balances	**1,997**	2,980	3,230
Short term deposits	**5,158**	2,409	8,347
	7,155	5,389	11,577

Cash and cash equivalents classified as Assets held for sale amounted EUR 80 million (2012: EUR 1,328 million; 2011: nil) resulting in EUR 7,235 million (2012: EUR 6,717 million; 2011: EUR 11,577 million) reported as Cash and cash equivalents at the end of the year in the Consolidated statement of Cash flows.

The majority of the short-term deposits reported, are held with ING Bank. Reference is made to Note 52 “Related parties” for an overview of all transactions with ING Bank.

As at 31 December 2013, NN Group held EUR 354 million (2012: nil; 2011: nil) at central banks.

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss

	2013	2012	2011
Trading assets	**736**	586	534
Investments for risk of policyholders	**39,589**	98,765	116,438
Non-trading derivatives	**3,126**	5,107	7,285
Designated as at fair value through profit or loss	**482**	2,000	2,616
	43,933	106,458	126,873

In 2013, the change in Financial assets at fair value through profit and loss includes EUR –78,101 million as a result of the transfer of ING U.S. and EUR 16,357 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

In 2012, the change in “Investments for risk of policyholders” was mainly the result of the income for the year as well as the classification as held for sale of the insurance and investment management business in Asia. Reference is made to Note 11 “Assets and liabilities held for sale” and Note 28 “Underwriting expenditure”.

Trading assets by type

	2013	2012	2011
Equity securities	**724**	576	490
Debt securities	**12**	10	44
	736	586	534

Trading assets includes EUR 723 million (2012: EUR 546 million; 2011: EUR 475 million), private equity investments at fair value through profit or loss.

Investments for risk of policyholders by type

	2013	2012	2011
Equity securities	**36,919**	89,994	105,580
Debt securities	**1,821**	6,940	9,612
Loans or receivables	**849**	1,831	1,246
	39,589	98,765	116,438

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

Notes to the Consolidated annual accounts of NN Group continued

Non-trading derivatives by type			
	2013	2012	2011
Derivatives used in:			
– fair value hedges	**1**		
– cash flow hedges	**1,433**	2,450	2,572
– hedges of net investments in foreign operations		2	5
Other non-trading derivatives	**1,692**	2,655	4,708
	3,126	5,107	7,285

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

Designated as at fair value through profit or loss by type			
	2013	2012	2011
Equity securities	**427**		15
Debt securities	**43**	1,096	1,159
Other	**12**	904	1,442
	482	2,000	2,616

Other includes investments in private equity funds, hedge funds, other non-traditional investment vehicles and limited partnerships.

4 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments by type			
	2013	2012	2011
Equity securities	**5,620**	5,073	6,839
Debt securities	**55,394**	114,232	126,765
	61,014	119,305	133,604

Equity securities in 2013 include EUR 1,832 million shares in NN Group managed investment finds and EUR 1,565 million shares in third party managed investment funds.

Exposure to debt securities

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

Debt securities			
	2013	2012	2011
Available-for-sale investments	**55,394**	114,232	126,765
Loans and advances to customers	**6,479**	6,323	6,681
Available-for-sale investments and Assets at amortised cost	**61,873**	120,555	133,446
Trading assets	**12**	10	44
Investments for risk of policyholders	**1,821**	6,940	9,612
Designated as at fair value through profit or loss	**43**	1,096	1,159
Financial assets at fair value through profit or loss	**1,876**	8,046	10,815
	63,749	128,601	144,261

Notes to the Consolidated annual accounts of NN Group continued

NN Group's total exposure to debt securities included in Available-for-sale investments and assets at amortised cost of EUR 61,873 million (2012: EUR 120,555 million; 2011: EUR 133,446 million) is specified as follows by type of exposure:

Debt securities by type and balance sheet line – Available-for-sale investments and Assets at amortised cost

	Available-for-sale investments			Loans and advances to customers			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Government bonds	**43,307**	49,420	54,732				**43,307**	49,420	54,732
Covered bonds	**721**	996	1,118				**721**	996	1,118
Corporate bonds	**6,436**	43,072	45,260				**6,436**	43,072	45,260
Financial institution bonds	**4,303**	9,037	11,700				**4,303**	9,037	11,700
Bond portfolio (excluding ABS)	**54,767**	102,525	112,810	**0**	0	0	**54,767**	102,525	112,810
US agency RMBS	**143**	4,216	5,228				**143**	4,216	5,228
US prime RMBS	**1**	1,025	1,380				**1**	1,025	1,380
US Alt-A RMBS	**5**	284	295				**5**	284	295
US subprime RMBS		733	752				**0**	733	752
NON-US RMBS	**210**	215	513	**3,410**	3,745	4,515	**3,620**	3,960	5,028
CDO/CLO	**39**	130	183	**197**	290	505	**236**	420	688
Other ABS	**218**	1,440	1,459	**2,531**	1,997	1,346	**2,749**	3,437	2,805
CMBS	**11**	3,664	4,145	**341**	291	315	**352**	3,955	4,460
ABS portfolio	**627**	11,707	13,955	**6,479**	6,323	6,681	**7,106**	18,030	20,636
	55,394	114,232	126,765	**6,479**	6,323	6,681	**61,873**	120,555	133,446

Exposure to certain Asset backed securities

The table below shows certain ABS (US Subprime RMBS, Alt-A RMBS, CMBS and CDO/CLOs). It includes exposures in all relevant balance sheet lines, including not only loans and advances and available-for-sale investments as disclosed above, but also financial assets designated as at fair value through profit or loss.

Exposures, revaluations and losses on certain ABS bonds

	31 December 2013		**Change in 2013**			31 December 2012	
	Balance sheet value (1)	**Before tax revalu-ation reserve**	**Changes through equity (before tax)**	**Changes through profit and loss (before tax)**	**Other changes**	Balance sheet value [(1)]	Before tax revalu-ation reserve
US Subprime RMBS			**32**		**–765**	733	–32
US Alt-A RMBS	**5**		**–49**		**–230**	284	49
CDO/CLOs	**236**	**–2**	**5**		**–189**	420	–7
CMBS	**352**	**–3**	**–41**		**–3,649**	4,042	38
Total ABS	**593**	**–5**	**–53**	**0**	**–4,833**	5,479	48

(1) For assets classified as loans and receivables: amortised cost; otherwise: fair value.

In 2013, "Other changes" mainly relate to the transfer of ING U.S. Reference is made to Note 53 "Other events".

Exposures, revaluations and losses on certain ABS bonds

	31 December 2012		Change in 2012			31 December 2011	
	Balance sheet value [(1)]	Before tax revalu-ation reserve	Changes through equity (before tax)	Changes through profit and loss (before tax)	Other changes	Balance sheet value [(1)]	Before tax revalu-ation reserve
US Subprime RMBS	733	–32	158		–177	752	–190
US Alt-A RMBS	284	49	31	–2	–40	295	18
CDO/CLOs	420	–7	16		–284	688	–23
CMBS	4,042	38	445	2	–956	4,551	–407
Total ABS	5,479	48	650	0	–1,457	6,286	–602

(1) For assets classified as loans and receivables: amortised cost; otherwise: fair value.

Notes to the Consolidated annual accounts of NN Group continued

In 2012, "Other changes" mainly relate to the de-risking program of NN Group and includes sales and redemptions of certain ABS bonds.

Approximately 90% of the exposure in the ABS portfolio is externally rated AAA, AA or A.

Reference is made to Note 40 "Fair value of assets and liabilities" for disclosure by fair value hierarchy and Note 22 "Investment income" for impairments on available-for-sale debt securities.

Exposure to Government bonds and Unsecured Financial institutions' bonds of Greece, Italy, Ireland, Portugal and Spain
Since 2010 concerns arose regarding the creditworthiness of certain European countries. As a result of these concerns the value of sovereign debt decreased and exposures in those countries are being monitored closely. With regard to the sovereign debt crisis, NN Group's main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility ("EFSF") or receive support from the European Central Bank ("ECB") via government bond purchases in the secondary market. For these countries, NN Group's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds.

At 31 December 2013, NN Group's balance sheet value of "Government bonds" and "Unsecured Financial institutions" bonds to Greece, Italy, Ireland, Portugal and Spain and the related revaluation reserve in equity (before tax) was as follows:

Greece, Italy, Ireland, Portugal and Spain – Government bonds and Unsecured Financial institutions' bonds [(1)]

2013	Balance sheet value	Before tax revaluation reserve	Amortised cost value
Greece			
Government bonds available-for-sale	105	66	39
Italy			
Government bonds available-for-sale	1,391	85	1,306
Financial institutions available-for-sale	55	1	54
Ireland			
Government bonds available-for-sale	59	6	53
Portugal			
Government bonds available-for-sale	4	–1	5
Financial institutions available-for-sale	27	1	26
Spain			
Government bonds available-for-sale	1,012	2	1,010
Financial institutions available-for-sale	79	3	76
Total	2,732	163	2,569

(1) Exposures are included based on the country of residence.

The revaluation reserve on debt securities in 2013 includes EUR 3,280 million (before tax) related to Government bonds. This amount comprises EUR 158 million revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain.

Notes to the Consolidated annual accounts of NN Group continued

At 31 December 2012, NN Group's balance sheet value of "Government bonds" and "Unsecured Financial institutions" bonds to Greece, Italy, Ireland, Portugal and Spain and the related revaluation reserve in equity (before tax) was as follows:

Greece, Italy, Ireland, Portugal and Spain – Government bonds and Unsecured Financial institutions' bonds [1]

2012	Balance sheet value	Before tax revaluation reserve	Before tax impairments	Amortised cost value
Greece				
Government bonds available-for-sale	76	40		36
Italy				
Government bonds available-for-sale	1,377	32		1,345
Financial institutions available-for-sale	51	–1		52
Ireland				
Government bonds available-for-sale	55	1		54
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	7	–3		10
Financial institutions available-for-sale	40	2		38
Spain				
Government bonds available-for-sale	872	–97		969
Financial institutions available-for-sale	96	–2	–11	109
Total	2,589	–28	–11	2,628

[1] Exposures are included based on the country of residence.

The revaluation reserve on debt securities in 2012 included EUR 6,298 million (before tax) related to Government bonds. This amount comprises EUR 27 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain, which is more than offset by EUR 6,325 million positive revaluation reserves for Government bonds from other countries.

At 31 December 2011, NN Group's balance sheet value of "Government bonds" and "Unsecured Financial institutions" bonds to Greece, Italy, Ireland, Portugal and Spain and the related before tax revaluation reserve in equity was as follows:

Greece, Italy, Ireland, Portugal and Spain – Government bonds and Unsecured Financial institutions' bonds [1]

2011	Balance sheet value	Before tax revaluation reserve	Before tax impairments [2]	Amortised cost value
Greece				
Government bonds available-for-sale	104		–352	456
Italy				
Government bonds available-for-sale	1,207	–219		1,426
Financial institutions available-for-sale	83	–21		104
Ireland				
Government bonds available-for-sale	43	–10		53
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	95	–88		183
Financial institutions available-for-sale	47	–17		64
Spain				
Government bonds available-for-sale	866	–118		984
Financial institutions available-for-sale	163	–30		193
Total	2,623	–503	–352	3,478

[1] Exposures are included based on the country of residence.
[2] Before tax impairments relate to bonds held at 31 December 2011. In addition, EUR 38 million and EUR 189 million impairments were recognised in 2011 on Greek government bonds and Irish unsecured Financial institutions' bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds and Irish unsecured Financial institutions' bonds in 2011 is therefore EUR 390 million and EUR 189 million as explained below.

Notes to the Consolidated annual accounts of NN Group continued

The revaluation reserve on debt securities in 2011 included EUR 3,868 million (before tax) related to Government bonds. This amount comprised EUR 435 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain, which was more than offset by EUR 4,303 million positive revaluation reserves for Government bonds from other countries.

On 21 July 2011, a Private Sector Involvement ("PSI") to support Greece was announced. This initiative involved a voluntary exchange of existing Greek Government bonds together with a Buyback facility. Due to this initiative, NN Group impaired all its Greek Government bonds to market value at 31 December 2011, bringing total impairments on these bonds to EUR 390 million.

In 2012, the agreement under the PSI to exchange Greek Government bonds into new instruments was executed. Under this exchange NN Group received new listed Greek Government bonds (for a notional amount of 31.5% of the notional of the exchanged bonds, maturities between 2023 and 2042), listed European Financial Stability Facility ("EFSF") notes (for a notional amount of 15% of the notional of the exchanged bonds, maturities of one to two years) and listed short-term EFSF notes (maturity of 6 months, in discharge of all unpaid interest accrued on the exchanged bonds). These new securities were recognised as available-for-sale instruments. Furthermore, NN Group received listed GDP-linked securities issued by Greece (notional equal to notional of the new Greek Government bonds, maturity 2042). The exchange was executed on 12 March 2012. The exchanged bonds were derecognised and the new instruments were recognised at fair value on the exchange date. The exchange resulted in a loss of EUR 7 million in 2012, being the difference between amortised cost (net of cumulative impairments) of the exchanged bonds and fair value of the new instruments at the date of exchange. This result was included in "Investment income".

In 2011, NN Group recognised a total impairment of EUR 189 million on subordinated debt from Irish banks.

Reference is made to Note 40 "Fair value of assets and liabilities" for disclosure by fair value hierarchy and Note 22 "Investment income" for impairments on available-for-sale debt securities.

Further information on NN Group's risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain is provided in the "Risk management" section.

Changes in available-for-sale investments

	Equity securities			Debt securities			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**5,073**	6,839	7,013	**114,232**	126,765	116,334	**119,305**	133,604	123,347
Additions	**908**	1,474	1,391	**45,005**	70,884	67,149	**45,913**	72,358	68,540
Amortisation				**–581**	–304	–395	**–581**	–304	–395
Transfers and reclassifications			904				**0**	0	904
Changes in the composition of the group and other changes	**409**	–1,335	–153	**–47,407**	–26,805	–645	**–46,998**	–28,140	–798
Changes in unrealised revaluations	**258**	475	–382	**–6,205**	6,931	4,309	**–5,947**	7,406	3,927
Impairments	**–174**	–159	–188	**–10**	–48	–741	**–184**	–207	–929
Reversal of impairments				**2**	8	5	**2**	8	5
Disposals and redemptions	**–818**	–2,224	–1,765	**–47,278**	–61,753	–61,851	**–48,096**	–63,977	–63,616
Exchange rate differences	**–36**	3	19	**–2,364**	–1,446	2,600	**–2,400**	–1,443	2,619
Closing balance	**5,620**	5,073	6,839	**55,394**	114,232	126,765	**61,014**	119,305	133,604

In 2013, Changes in the composition of the group and other changes includes EUR –56,467 million as a result of the transfer of ING U.S. and EUR 9,674 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

In 2012, Changes in the composition of the group and other changes related mainly to the classification of the insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 "Assets and liabilities held for sale".

Reference is made to Note 22 "Investment income" for details on impairments.

Transfers and reclassifications of available-for-sale investments

	Equity securities			Debt securities			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
To/from investments in associates			904						904

In 2011, Transfers and reclassifications related to the reclassification from associates to available-for-sale equity securities as a result of the fact that significant influence ceased to exist for certain real estate funds due to the sale of ING Real Estate Investment Management.

Reclassifications to Loans and advances to customers (2009)
Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS-EU as of the third quarter of 2008. In the second quarter of 2009 NN Group reclassified certain financial assets from Available-for-sale investments to Loans and advances to customers. NN Group identified assets, eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table below provides information on this reclassification made in second quarter of 2009. Information is provided for this reclassification (see column) as at the date of reclassification and as at the end of the subsequent reporting periods (see rows). This information is disclosed under IFRS-EU as long as the reclassified assets continue to be recognised in the balance sheet.

Reclassifications to Loans and advances to customers

	Q2 2009
As per reclassification date	
Fair value	6,135
Range of effective interest rates (weighted average)	1.4%-24.8%
Expected recoverable cash flows	7,118
Unrealised fair value losses in shareholder's equity (before tax)	–896
Recognised fair value gains (losses) in shareholder's equity (before tax) between the beginning of the year in which the reclassification too place and the reclassification date	173
Recognised fair value gains (losses) in shareholder's equity (before tax) in the year prior to reclassification	–971
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil
Recognised impairment (before tax) in the year prior to reclassification	nil

Impact on the financial years after reclassification

	2013	2012	2011	2010	2009
Carrying value as at 31 December	**1,098**	1,694	3,057	4,465	5,550
Fair value as at 31 December	**1,108**	1,667	2,883	4,594	5,871
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	**111**	–186	–307	–491	–734
Effect on shareholder's equity (before tax) if reclassification had not been made	**10**	–27	–174	129	321
Effect on result (before tax) if reclassification had not been made	**nil**	nil	nil	nil	nil
Effect on result (before tax) after the reclassification until 31 December(mainly interest income)	**n/a**	n/a	n/a	n/a	121
Effect on result (before tax) for the year (interest income and sales results)	**–10**	–47	90	89	n/a
Recognised impairments (before tax)	**nil**	nil	nil	nil	nil
Recognised provision for credit losses (before tax)	**nil**	nil	nil	nil	nil

In 2012, the decrease in the carrying value of the reclassified Loans and advances to customers, compared to 2011 was mainly due to disposals.

Available-for-sale equity securities

	2013	2012	2011
Listed	**2,688**	2,297	3,807
Unlisted	**2,932**	2,776	3,032
	5,620	5,073	6,839

Borrowed debt securities are not recognised in the balance sheet and amounted to nil as at 31 December 2013 (2012: nil; 2011: EUR 466 million).

NN Group did not have Available-for-sale investments that did not produce any income for the year ended 31 December 2013, 2012 and 2011.

Notes to the Consolidated annual accounts of NN Group continued

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by type

	Netherlands			International			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Policy loans	**33**	38	44	**146**	1,704	3,308	**179**	1,742	3,352
Loans secured by mortgages	**15,365**	6,376	6,450	**9**	7,327	7,692	**15,374**	13,703	14,142
Unsecured loans	**2,457**	2,070	2,143	**70**	1,231	5,135	**2,527**	3,301	7,278
Asset backed securities	**6,479**	6,323	6,681				**6,479**	6,323	6,681
Other	**835**	338	355	**14**	527	1,244	**849**	865	1,599
	25,169	15,145	15,673	**239**	10,789	17,379	**25,408**	25,934	33,052
Loan loss provisions	**–83**	–68	–80	**–6**	–43	–44	**–89**	–111	–124
	25,086	15,077	15,593	**233**	10,746	17,335	**25,319**	25,823	32,928

Changes in loan loss provisions

	2013	2012	2011
Opening balance	**111**	124	117
Changes in the composition of the group and other changes	**–33**	–4	–2
Write–offs	**–31**	–39	–24
Recoveries	**1**		2
Increase in loan loss provisions	**42**	29	33
Exchange rate differences	**–1**	1	–2
Closing balance	**89**	111	124

In 2013, Changes in the composition of the group and other changes includes EUR 5 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events". Furthermore Changes in the composition of the group and other changes relates to the sale of ING's mortgage business in Mexico. Reference is made to Note 49 "Companies and businesses acquired and divested".

Loans and advances to customers increased by EUR 8.0 billion due to the transfer of mortgages from ING Bank to NN Group. Reference is made to Note 49 "Companies and businesses acquired and divested".

6 INVESTMENTS IN ASSOCIATES

Investments in associates

2013	**Interest held (%)**	**Fair value of listed invest-ments**	**Balance sheet value**	**Total assets**	**Total liabilities**	**Total income**	**Total expenses**
Sul América S.A.	**21**	**332**	**186**	**4,656**	**3,787**	**2,752**	**2,692**
CBRE Lionbrook Property Partnership LP	**29**		**146**	**567**	**55**	**79**	**28**
CBRE Retail Property Fund Iberica LP	**29**		**118**	**1,322**	**902**		**67**
CBRE Property Fund Central Europe LP	**25**		**100**	**851**	**450**	**45**	**39**
CBRE Retail Property Fund France Belgium C.V.	**15**		**77**	**1,336**	**822**	**71**	**78**
CBRE French Residential Fund C.V.	**42**		**76**	**240**	**58**	**12**	**10**
CBRE Property Fund Central and Eastern Europe	**21**		**51**	**688**	**439**	**47**	**55**
Other investments in associates			**274**				
			1,028				

Investments in associates other than Sul América S.A., are mainly real estate investment funds or vehicles, operating predominantly in Europe.

Other investments in associates represents a large number of associates with an individual balance sheet of less than EUR 50 million.

Notes to the Consolidated annual accounts of NN Group continued

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

No accumulated impairments have been recognised in 2013, 2012 and 2011.

The values presented in the table above could differ from the values presented in the individual annual accounts of the associates, due to the fact that the individual values have been brought in line with NN Group's accounting principles.

In general the reporting dates of all significant associates are consistent with the reporting date of NN Group. However the reporting dates of certain associates can differ from the reporting date of NN Group, but is no more than three months.

Where the listed fair value is lower than the balance sheet value, an impairment review and an evaluation of the going concern basis has been performed.

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

Investments in associates

2012	Interest held (%)	Fair value of listed invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul América S.A.	36	674	366	5,037	4,048	4,285	3,969
CBRE Retail Property Fund Iberica LP	29		129	1,423	964	–22	75
CBRE Lionbrook Property Partnership LP	20		102	577	77	31	23
CBRE Property Fund Central Europe LP	25		97	907	519	66	30
CBRE French Residential Fund C.V.	42		76	253	71	11	8
CBRE Retail Property Fund France Belgium C.V.	15		76	1,388	882	123	78
CBRE Nordic Property Fund FGR	14		55	1,057	674	19	68
Other investments in associates			451				
			1,352				

Investments in associates

2011	Interest held (%)	Fair value of listed invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul América S.A.	36	641	394	5,353	4,292	3,941	3,662
CBRE Retail Property Fund Iberica LP	29		147	1,666	1,146	96	65
CBRE Lionbrook Property Partnership LP	20		102	604	92	50	17
CBRE Property Fund Central Europe LP	25		90	897	536	87	4
CBRE French Residential Fund C.V.	42		78	249	65	24	8
The Capital (London) Fund	20		77	387	3	14	3
CBRE Retail Property Fund France Belgium C.V.	15		73	1,374	889	117	57
CBRE Nordic Property Fund FGR	14		60	1,079	662	92	67
CBRE Property Fund Central and Eastern Europe	21		51	747	509	122	57
Other investments in associates			454				
			1,526				

Notes to the Consolidated annual accounts of NN Group continued

Changes in investments in associates	2013	2012	2011
Opening balance	**1,352**	1,526	2,428
Additions	**48**	23	118
Changes in the composition of the group and other changes	**–88**	–46	–14
Transfers to and from Available-for-sale Investments			–904
Revaluations	**20**	–30	–17
Share of result	**97**	37	194
Dividends received	**–36**	–56	–126
Disposals	**–335**	–75	–131
Exchange rate differences	**–30**	–27	–22
Closing balance	**1,028**	1,352	1,526

In 2013, Changes in the composition of the group and other changes includes EUR –64 million as a result of the transfer of ING U.S. and EUR –17 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

In 2013, Share of results includes EUR 128 million (2012: EUR 80 million; 2011: EUR 92 million) relating to Sul América S.A. and the remainder to individually not significant associates.

In 2013, the 36.5% interest in Sul América S.A. was reduced to 21.3% through two separate transactions, included in Disposals. In the International Finance Corporation transaction, a share of interest of approximately 7.9% in Sul América S.A was sold for a total consideration of approximately EUR 140 million. Under the terms of the Larragoiti transaction, a share of interest in Sul América S.A. of approximately 7% was sold to the Larragoiti family, the remaining indirect stake for tradable units was swapped, and the existing shareholder's agreement unwound. A net gain of EUR 64 million is recognised in the "Result on disposal of Group companies" in the Consolidated profit and loss account on these transactions.

On 7 January 2014, the sale to Swiss Re Group of 37.7 million units in Sul América S.A. was completed. The transaction further reduced the interest in the Brazilian insurance holding to approximately 10%. A total cash consideration of EUR 176 million was received. The transaction resulted in a net gain of EUR 56 million which represents the difference between the carrying value and the fair value for both the 11.3% interest in scope of the transaction with Swiss Re and the retained 10% interest. The net gain will be recognised in the first quarter of 2014. In 2014, the remaining interest was transferred to ING Group by way of dividend in kind .Together with a dividend paid to ING Group for the proceeds of the 11% divestment, this resulted in a dividend of EUR 315 million in 2014.

In 2013, Exchange rate differences includes EUR –42 million (2012: EUR –42 million; 2011: EUR –32 million) relating to Sul América S.A. and the remainder to individually not significant associates.

In 2011, Transfers to and from Investments relates to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management.

7 REAL ESTATE INVESTMENTS

Changes in real estate investments	2013	2012	2011
Opening balance	**805**	954	1,063
Additions	**200**	56	23
Changes in the composition of the group and other changes	**–6**	–87	–93
Transfers to and from Other assets		–2	
Fair value gains/(losses)	**–6**	–48	2
Disposals	**–229**	–71	–35
Exchange rate differences		3	–6
Closing balance	**764**	805	954

In 2013, Changes in the composition of the group and other changes includes EUR –6 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Notes to the Consolidated annual accounts of NN Group continued

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2013 is EUR 63 million (2012: EUR 69 million; 2011: EUR 65 million). No contingent rent was recognised in the Consolidated profit and loss account.

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments that generated rental income for the year ended 31 December 2013 is EUR 13 million (2012: EUR 14 million; 2011: EUR 17 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on Real estate investments that did not generate rental income for the year ended 31 December 2013 is nil (2012: EUR 3 million; 2011: EUR 1 million).

Real estate investments by year of most recent appraisal by independent qualified valuers

In percentages	2013	2012	2011
Most recent appraisal in current year	**100**	100	100

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

Real estate exposure

	2013	2012	2011
Real estate investments	**764**	805	954
Investments in associates	**807**	869	956
Other assets – property development and obtained from foreclosures	**3**	72	72
Property and equipment – property in own use	**100**	220	292
Investments – available-for-sale	**1,358**	1,412	1,511
	3,032	3,378	3,785

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 4.8 billion (2012: EUR 5.4 billion; 2011: EUR 5.9 billion). Reference is made to the “Risk management” section.

Notes to the Consolidated annual accounts of NN Group continued

8 PROPERTY AND EQUIPMENT

Property and equipment by type

	2013	2012	2011
Property in own use	100	220	292
Equipment	64	118	177
	164	338	469

Changes in property in own use

	2013	2012	2011
Opening balance	220	292	313
Additions	5		3
Changes in the composition of the group and other changes	–105	–25	–16
Transfers to and from other assets		1	
Depreciation	–2	–3	–4
Revaluations	–15	–33	–6
Impairments	–1		
Disposals	–1	–11	–2
Exchange rate differences	–1	–1	4
Closing balance	100	220	292
Gross carrying amount as at 31 December	133	255	327
Accumulated depreciation as at 31 December	–29	–32	–32
Accumulated impairments as at 31 December	–4	–3	–3
Net carrying value as at 31 December	100	220	292
Revaluation surplus			
Opening balance	27	44	43
Revaluation in year	–2	–16	1
Released in year	–16	–1	
Closing balance	9	27	44

In 2013, Changes in the composition of the group and other changes includes EUR –104 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

The cost or the purchase price amounted to EUR 124 million (2012: EUR 228 million; 2011: EUR 283 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 91 million (2012: EUR 193 million; 2011: EUR 248 million) had property in own use been valued at cost instead of fair value.

Property in own use by year of most recent appraisal by independent qualified valuers

In percentages	2013	2012	2011
Most recent appraisal in current year	76	84	45
Most recent appraisal one year ago	21		16
Most recent appraisal two years ago	1	15	
Most recent appraisal three years ago			39
Most recent appraisal four years ago	2	1	
	100	100	100

Notes to the Consolidated annual accounts of NN Group continued

Changes in equipment

	Data processing equipment			Fixtures and fittings and other equipment			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**51**	65	67	**67**	112	137	**118**	177	204
Additions	**16**	38	38	**9**	22	36	**25**	60	74
Changes in the composition of the group and other changes	**–13**	–14	–10	**–8**	–30	–12	**–21**	–44	–22
Disposals	**–2**	–2	–1		–5	–12	**–2**	–7	–13
Depreciation	**–26**	–36	–29	**–27**	–31	–36	**–53**	–67	–65
Impairments					–1	–1		–1	–1
Exchange rate differences	**–1**			**–2**			**–3**		
Closing balance	**25**	51	65	**39**	67	112	**64**	118	177
Gross carrying amount as at 31 December	**85**	198	256	**177**	265	394	**262**	463	650
Accumulated depreciation as at 31 December	**–60**	–147	–191	**–138**	–198	–282	**–198**	–345	–473
Net carrying value as at 31 December	**25**	51	65	**39**	67	112	**64**	118	177

9 INTANGIBLE ASSETS

Changes in intangible assets

2013	**Value of business acquired**	**Goodwill**	**Software**	**Other**	**Total**
Opening balance	**513**	**277**	**108**	**120**	**1,018**
Additions			**43**		**43**
Capitalised expenses	**50**		**18**		**68**
Amortisation and unlocking	**–25**		**–55**	**–13**	**–93**
Impairments			**–2**		**–2**
Effect of unrealised revaluations in equity	**308**				**308**
Changes in the composition of the group and other changes	**–819**		**–26**	**–72**	**–917**
Exchange rate differences	**–7**	**–13**	**–2**	**–3**	**–25**
Disposals			**–8**		**–8**
Closing balance	**20**	**264**	**76**	**32**	**392**
Gross carrying amount as at 31 December	**41**	**385**	**649**	**118**	**1,193**
Accumulated amortisation as at 31 December	**–21**		**–532**	**–40**	**–593**
Accumulated impairments as at 31 December		**–121**	**–41**	**–46**	**–208**
Net carrying value as at 31 December	**20**	**264**	**76**	**32**	**392**

In 2013, Changes in the composition of the group and other changes includes EUR –909 million as a result of the transfer of ING U.S. and EUR 4 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Amortisation of software and other intangible assets is included in the profit and loss account in "Other operating expenses" and "Intangible amortisation and other impairments". Amortisation of VOBA is included in Underwriting expenditure.

Notes to the Consolidated annual accounts of NN Group continued

Changes in intangible assets

2012	Value of business acquired	Goodwill	Software	Other	Total
Opening balance	871	786	135	180	1,972
Additions			82		82
Capitalised expenses	83		3		86
Amortisation and unlocking	–207		–60	–30	–297
Impairments		–56	–2		–58
Effect of unrealised revaluations in equity	–140				–140
Changes in the composition of the group and other changes	–89	–469	–44	–30	–632
Exchange rate differences	–5	16	1		12
Disposals			–7		–7
Closing balance	513	277	108	120	1,018
Gross carrying amount as at 31 December	1,977	1,019	783	286	4,065
Accumulated amortisation as at 31 December	–1,464		–646	–120	–2,230
Accumulated impairments as at 31 December		–742	–29	–46	–817
Net carrying value as at 31 December	513	277	108	120	1,018

Changes in intangible assets

2011	Value of business acquired	Goodwill	Software	Other	Total
Opening balance	1,320	1,425	166	345	3,256
Additions		8	73	1	82
Capitalised expenses	81		2		83
Amortisation and unlocking	–244		–59	–48	–351
Impairments			–34		–34
Effect of unrealised revaluations in equity	–250				–250
Changes in the composition of the group and other changes	–43	–575	–2	–108	–728
Exchange rate differences	7	–72	–2	–10	–77
Disposals			–9		–9
Closing balance	871	786	135	180	1,972
Gross carrying amount as at 31 December	2,244	1,471	818	369	4,902
Accumulated amortisation as at 31 December	–1,373		–646	–143	–2,162
Accumulated impairments as at 31 December		–685	–37	–46	–768
Net carrying value as at 31 December	871	786	135	180	1,972

Goodwill

Changes in Goodwill

2012 – Impairment

In 2012, a goodwill impairment of EUR 56 million was recognised relating to the reporting unit Netherlands-Life (formerly part of Insurance Benelux). In the impairment test, the IFRS-EU carrying value (including goodwill) was compared with a valuation based on the surplus in the market consistent balance sheet and the market value of new business. These are commonly used metrics in the European insurance industry. During 2012, the carrying value of the reporting unit increased, mainly as a result of declining interest rates being reflected in the fair value of assets but with no corresponding increase in the IFRS-EU carrying value of insurance liabilities. As the market value surplus (MVS) of the reporting unit did not increase similarly, the margin of MVS over IFRS-EUR carrying value, which supported the goodwill, became negative and, as a result, goodwill was fully impaired. This charge was included in the Consolidated profit and loss account in the line “Intangible amortisation and other impairments”. Goodwill is recognised in the Corporate Line and, therefore, this charge was included in the segment reporting in Other.

Notes to the Consolidated annual accounts of NN Group continued

2012 – Changes in composition of the group and other changes
In 2012, “Changes in composition of the group and other changes” represents the classification of goodwill to “Assets held for sale”. This included all goodwill that relates to businesses that were classified as held for sale. For 2012, the amount was EUR 469 million and related to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million). As businesses to which these goodwill amounts relate to were classified as held for sale, the related goodwill was no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. Reference is made to Note 11 “Assets and liabilities held for sale”.

2011 – Changes in composition of the group and other changes
In 2011, “Changes in composition of the group and other changes” related mainly to the disposal of the Latin American operations.

Allocation of Goodwill to reporting units
After the above changes, the remaining goodwill is allocated to goodwill reporting units as follows:

Goodwill allocation to reporting units

	2013	2012	2011
Netherlands Life			56
Insurance Europe	**101**	114	112
Investment Management (IM)	**163**	163	382
Other			236
Total Insurance	**264**	277	786

Goodwill impairment testing
Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the so called “reporting units” as set out above. The changes in reportable segments as disclosed in Note 36 “Segments” resulted in the above reporting units but did not impact the outcome of the impairment test. Goodwill is tested for impairment by comparing the carrying value of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is allocated is determined separately for each relevant reporting unit based on Price to Earnings, Price to Book, and Price to Assets under management ratios. The main assumptions in this valuation are the multiples for Price to Earnings, Price to Book and Price to Assets under management; these are developed internally but are either derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU. Where available the test includes the use of market prices for listed business units.

If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

Such additional analyses were performed for the goodwill that was concluded to be impaired as set out above. For other reporting units, the goodwill allocated to these reporting units was fully supported in the first step.

Notes to the Consolidated annual accounts of NN Group continued

10 DEFERRED ACQUISITION COSTS

Changes in deferred acquisition costs

	Life insurance			Non-life insurance			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**4,513**	10,165	10,457	**36**	39	42	**4,549**	10,204	10,499
Capitalised	**616**	1,659	1,575	**8**	15	12	**624**	1,674	1,587
Amortisation and unlocking	**–1,885**	–1,051	–1,689	**–7**	–15	–13	**–1,892**	–1,066	–1,702
Effect of unrealised revaluations in equity	**660**	–251	–526				**660**	–251	–526
Changes in the composition of the group and other changes	**–2,094**	–5,765	44		–3	–2	**–2,094**	–5,768	42
Exchange rate differences	**–494**	–244	304				**–494**	–244	304
Closing balance	**1,316**	4,513	10,165	**37**	36	39	**1,353**	4,549	10,204

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2013 is 6.0% gross and is 4.3% net of investment management fees (2012: 8.1% gross and 7.3% net of investment management fees; 2011: 8.1% gross and 7.4% net of investment management fees). Percentages are based on the portfolios from continuing operations for the respective years.

In 2013, Changes in the composition of the group and other changes includes EUR –4,493 million as a result of the transfer of ING U.S. and EUR 2,409 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

The separate reporting of the Japan Closed Block VA business line triggered a write-off of all deferred acquisition costs (DAC) related to the Japan Closed Block VA business of EUR 1,405 million partly compensated by a release of the Life insurance provision related to unearned revenues of EUR 867 million. The write-off is included in Amortisation and unlocking for the year 2013. Reference is made to Note 53 "Other events".

In 2012, Changes in the composition of the group and other changes related mainly to the classification of the insurance and investment management businesses in Asia as held for sale. Reference is made to Note 11 "Assets and liabilities held for sale".

In 2011, Amortisation and unlocking includes EUR 488 million related to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. This effect has been included as part of Net result from discontinued operations in the Consolidated profit and loss account.

11 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale includes disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed.

As at 31 December 2013 Assets and liabilities held for sale relates to the remaining insurance and investment management businesses in Asia ("Asia") excluding NN Group's business in Japan.

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group's European insurance and investment management businesses in the base case IPO of NN Group in 2014. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re ("NN Group's business in Japan") are no longer classified as held for sale as at 31 December 2013. Reference is made to Note 53 "Other events".

As at 31 December 2012 Assets and liabilities held for sale related to insurance and investment management businesses in Asia ("Asia") including NN Group's business in Japan.

There were no Assets and liabilities classified as held for sale as at 31 December 2011.

During 2013, the divestments of the insurance businesses in Hong Kong, Macau and Thailand, the investment management business in Malaysia and Thailand and the joint ventures in South Korea and India, closed. During 2012, the divestment of the insurance business in Malaysia closed. As a result these businesses are no longer consolidated.

Furthermore, some divestments were agreed that are expected to close or closed in 2014, including ING-BOB Life and the Taiwanese investment management businesses; these remain to be classified as held for sale as at 31 December 2013. Reference is made to Note 49 "Companies and businesses acquired and divested".

Notes to the Consolidated annual accounts of NN Group continued

Assets held for sale	2013	2012
Cash and cash equivalents	80	1,328
Financial assets at fair value through profit or loss	16	26,688
Available-for-sale investments	297	24,805
Loans and advances to customers	156	2,084
Reinsurance contracts		98
Investments in associates		37
Property and equipment	3	33
Intangible assets		176
Deferred acquisition costs	27	5,124
Other assets	51	1,318
	630	61,691

Liabilities held for sale	2013	2012
Insurance and investments contracts	418	51,198
Financial liabilities at fair value through profit or loss		2,073
Other liabilities	48	2,384
	466	55,655

Included in Shareholder’s equity is cumulative other comprehensive income of EUR 5 million (2012: EUR 1,585 million; 2011: nil) related to Assets and liabilities held for sale.

Goodwill

At 31 December 2013, there was no goodwill presented under Assets held for sale (2012: EUR 469 million; 2011: nil). In 2012, EUR 469 million goodwill was reclassified to Assets held for sale. This related to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million).

For businesses classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. In 2012, goodwill of EUR 180 million related to Investment Management Korea, EUR 200 million related to ING Life Korea and EUR 15 million related to ING Vysya Life Insurance was written off, as the related businesses were expected to be sold below carrying value. In 2013, goodwill of EUR 42 million related to Investment Management Taiwan was written off. The developments in the sales process of Investment Management Taiwan during 2013 (resulting in a sale in January 2014) indicated that the expected sales proceeds were no longer above the carrying value. The related charges were included in the Consolidated profit and loss account in Net result from classification as discontinued operations.

Fair value measurement

The fair value hierarchy of assets and liabilities measured at fair value, that are presented as held for sale is included below. The fair value hierarchy consists of three levels, depending upon whether fair value were determined based on unadjusted quoted prices in an active market (Level 1), valuation techniques supported by observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Reference is made to Note 40 “Fair value of assets and liabilities” for more details on the methods applied in determining the fair value.

Methods applied in determining the fair value of financial assets and liabilities – Held for sale

2013	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	14			14
Investments for risk of policyholders	2			2
Available-for-sale investments	296	1		297
	312	1	0	313

Notes to the Consolidated annual accounts of NN Group continued

Methods applied in determining the fair value of financial assets and liabilities – Held for sale

2012	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	18			18
Investments for risk of policyholders	22,452		116	22,568
Non-trading derivatives		1,447		1,447
Financial assets designated as at fair value through profit or loss		2,640	15	2,655
Available-for-sale investments	16,180	8,386	239	24,805
	38,650	12,473	370	51,493
Liabilities				
Non-trading derivatives	287	1,786		2,073
Investment contracts (for contracts carried at fair value)	95			95
	382	1,786	0	2,168

12 OTHER ASSETS

Other assets by type

	2013	2012	2011
Reinsurance and insurance receivables	**642**	1,763	1,971
Deferred tax assets	**51**	76	186
Property development and obtained from foreclosures	**3**	72	72
Income tax receivable	**137**	44	82
Accrued interest and rents	**1,741**	2,448	2,999
Other accrued assets	**274**	1,040	1,670
Net defined benefit asset	**383**	670	1,472
Other	**523**	622	1,179
	3,754	6,735	9,631

The change in amounts reported in Other assets is mainly due to EUR –2,495 million as a result of the transfer of ING U.S. and EUR 1,251 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Disclosures in respect of deferred tax assets are provided in Note 39 "Taxation" and disclosures in respect of Net defined benefit assets are provided in Note 38 "Pension and other post-employment benefits".

Accrued interest and rents includes EUR 1,272 million (2012: EUR 1,948 million; 2011: EUR 2,216 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

Reinsurance and insurance receivables

	2013	2012	2011
Receivables on account of direct insurance from:			
– policyholders	**500**	1,083	1,238
– intermediaries	**51**	50	67
Reinsurance receivables	**91**	630	666
	642	1,763	1,971

The allowance for uncollectable reinsurance and insurance receivables amounts to EUR 53 million as at 31 December 2013 (2012: EUR 50 million; 2011: EUR 66 million). The allowance is deducted from this receivable.

EQUITY
13 EQUITY

Total equity

	2013	2012	2011
Share capital			
Share premium	11,605	17,750	17,750
Revaluation reserve	3,949	8,333	5,060
Currency translation reserve	–252	–331	131
Net defined benefit asset/liability	–1,042	–1,000	–90
Other reserves	–33	1,671	561
Shareholder's equity (parent)	14,227	26,423	23,412
Minority interests	68	217	62
Total equity	14,295	26,640	23,474

The Revaluation reserve, Share of associates reserve (included in Other reserves) and Currency translation reserve cannot be freely distributed.

Reference is made to Note 38 “Pension and other post-employment benefits” for information on the amounts recognised directly in equity (Other comprehensive income) related to the net defined benefit asset/liability remeasurement.

Share capital

	Ordinary shares (par value EUR 1.00)					
	Number x 1,000			Amount		
	2013	2012	2011	2013	2012	2011
Authorised share capital	225	225	225			
Unissued share capital	180	180	180			
Issued share capital	45	45	45	0	0	0

NN Group has an issued share capital of EUR 45,000.

Ordinary shares
All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Management Board NN Group. The par value of ordinary shares is EUR 1.00.

Dividend restrictions
NN Group N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid–up capital, and reserves required by law. Additionally, certain group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Changes in Share premium

	2013
Opening balance	17,750
Capital contribution	1,330
Transfer of ING U.S.	–6,826
Dividend	–649
Closing balance	11,605

Notes to the Consolidated annual accounts of NN Group continued

Changes in revaluation reserve				
2013	**Property revalu-ation reserve**	**Available-for-sale reserve**	**Cash flow hedge reserve**	**Total**
Opening balance	**18**	**4,768**	**3,548**	**8,334**
Changes in the composition of the group and other changes	**–8**	**–419**	**12**	**–415**
Impact of IPO of ING U.S.	**–3**	**–359**	**–2**	**–364**
Unrealised revaluations	**–1**	**–4,804**		**–4,805**
Realised gains/losses transferred to profit and loss		**–123**		**–123**
Change in cash flow hedge reserve			**–832**	**–832**
Transfer to insurance liabilities/DAC		**2,154**		**2,154**
Closing balance	**6**	**1,217**	**2,726**	**3,949**

Changes in the composition of the group and other changes relates to the transfer of ING U.S. Reference is made to Note 53 “Other events”.

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 17 “Insurance and investment contracts, reinsurance contracts”.

Changes in revaluation reserve				
2012	Property revalu-ation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	31	2,146	2,883	5,060
Unrealised revaluations	–13	5,102		5,089
Realised gains/losses transferred to profit and loss		–299		–299
Change in cash flow hedge reserve			665	665
Transfer to insurance liabilities/DAC		–2,181		–2,181
Closing balance	18	4,768	3,548	8,334

Changes in revaluation reserve				
2011	Property revalu-ation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	29	1,749	1,567	3,345
Unrealised revaluations	2	2,084		2,086
Realised gains/losses transferred to profit and loss		317		317
Change in cash flow hedge reserve			1,316	1,316
Transfer to insurance liabilities/DAC		–2,004		–2,004
Closing balance	31	2,146	2,883	5,060

Changes in currency translation reserve			
	2013	2012	2011
Opening balance	**–331**	131	–178
Changes in the composition of the group and other changes	**381**		
Unrealised revaluations	**132**	–25	–90
Realised gains/losses transferred to profit and loss	**213**	–68	156
Exchange rate differences	**–647**	–369	243
Closing balance	**–252**	–331	131

Changes in the composition of the group and other changes relates to the transfer of ING U.S. Reference is made to Note 53 “Other events”.

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

Notes to the Consolidated annual accounts of NN Group continued

Changes in other reserves

2013	Retained earnings	Share of asso-ciates reserve	Total
Opening balance	1,331	340	1,671
Result for the year	10		10
Transfer to share of associates reserve	–118	118	0
Changes in the composition of the group and other changes	76		76
Impact of IPO of ING U.S.	–1,594		–1,594
Dividend	–233		–233
Employee stock options and share plans	37		37
Closing balance	–491	458	–33

Changes in the composition of the group and other changes relates to the transfer of ING U.S. Reference is made to Note 53 “Other events”.

Changes in other reserves

2012	Retained earnings	Share of asso-ciates reserve	Total
Opening balance	385	176	561
Result for the year	1,038		1,038
Unrealised revaluations	10		10
Transfer to share of associates reserve	–164	164	0
Employee stock options and share plans	62		62
Closing balance	1,331	340	1,671

Changes in other reserves

2011	Retained earnings	Share of asso-ciates reserve	Total
Opening balance	–897	140	–757
Result for the year	1,226		1,226
Unrealised revaluations	37		37
Transfer to share of associates reserve	–36	36	0
Employee stock options and share plans	55		55
Closing balance	385	176	561

Dividend

In connection with the divestments of ING Life Korea and the 7.9% share of interest in Sul América, dividend declared and paid was EUR 882 million in 2013, of which EUR 649 million was charged to Share premium and EUR 233 million to Retained earnings.

Furthermore, in 2013 ING U.S. was transferred to ING Group by way of dividend in kind of EUR 6.826 million, which was charged to Share premium in full. Reference is made to Note 53 “Other events”.

Reference is made to Note 6 “Investments in associates” for details on dividend declared for the year 2014 in relation to the divestment of Sul América.

Notes to the Consolidated annual accounts of NN Group continued

LIABILITIES
14 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount	Balance sheet value 2013	2012	2011
8.000%	2011	Perpetual	EUR	450	**450**	450	450
Variable	2008	Perpetual	EUR	813	**813**	834	850
Variable	2007	Perpetual	EUR	740	**740**	758	772
4.176%	2005	Perpetual	EUR	169	**176**	181	313
Variable	2005	Perpetual	EUR	148	**148**	152	154
Variable	2005	Perpetual	EUR	74	**74**	76	77
6.375%	2002	7 May 2027	EUR	476	**491**	496	501
Variable	2001	21 June 2021	EUR	1,250			1,250
					2,892	2,947	4,367

These above presented subordinated bonds have been issued to raise hybrid capital. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes. EUR 2,401 million (2012: EUR 2,451 million; 2011: EUR 2,616 million) has been issued to ING Group.

Due to the transfer of ING U.S., all USD denominated subordinated loans have been converted into Euro denominated loans. Reference is made to Note 53 “Other Events”.

The decrease in “Subordinated loans” in the year 2012 reflects the redemption of the 2001, Variable interest rate, EUR 1,250 million hybrid security in December 2012.

On 12 December 2011, ING announced the launch of three separate exchange offers in Europe and tender offers in the United States of America, on a total of seven series of outstanding subordinated securities of ING entities with a total nominal value of approximately EUR 5.8 billion. Of this amount, EUR 1.0 billion related to securities originally issued by ING Verzekeringen N.V. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011. The participation for these bonds was 52% and resulted in a total gain of EUR 95 million (EUR 71 million after tax) including related hedge results and transaction costs. This gain was recognised in Other income in 2011.

15 DEBT SECURITIES IN ISSUE
Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on interest rate levels, such as certificates of deposit and accepted bills originally issued by ING Verzekeringen N.V., except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit or loss. NN Group does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities

	2013	2012	2011
Fixed rate debt securities			
Within 1 year		530	849
More than 1 year but less than 2 years			1,114
More than 5 years		1,110	473
Total fixed rate debt securities	**0**	1,640	2,436
Floating rate debt securities			
Within 1 year		270	
More than 5 years			1,000
Total floating rate debt securities	**0**	270	1,000
Total debt securities	**0**	1,910	3,436

Mainly as a result of the transfer of ING U.S., NN Group does not have debt securities in issue as at 31 December 2013.

Notes to the Consolidated annual accounts of NN Group continued

On 8 March 2012, ING launched three separate exchange offers and consent solicitations on a total of three series of senior debt securities originally issued by ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. Holders had the possibility to exchange the original securities into new securities issued by ING Group and / or consent to a modification of existing terms. On average 64% of the holders accepted the offer to exchange into new securities issued by ING Group. The total nominal amount of the new securities issued by ING Group in exchange for the existing securities originally issued by ING Verzekeringen N.V. was EUR 1,654 million. Approximately 6% of the holders, representing EUR 151 million, accepted a modification of the existing terms of the securities. The transactions were completed on 30 March 2012. A charge of EUR 39 million (EUR 30 million after tax) was recognised in 2012. The settlement date of the exchange offers and consent solicitations was on 4 April 2012.

ING U.S., Inc. announced on 16 July 2012 that it completed a private debt offering of USD 850 million principal amount of its 5.5% Senior Notes due in 2022. In 2013, ING US is transferred to ING Group. Reference is made to Note 53 “Other events”.

16 OTHER BORROWED FUNDS

Other borrowed funds by remaining term

2013	2014	2015	2016	2017	2018	Years after 2018	Total
Loans contracted	1,009	20	15	12		490	1,546
Loans from credit institutions	2,732		60			479	3,271
	3,741	20	75	12	0	969	4,817

Other borrowed funds by remaining term

2012	2013	2014	2015	2016	2017	Years after 2017	Total
Loans contracted	1,740	815			4	663	3,222
Loans from credit institutions	3,306			60		854	4,220
	5,046	815	0	60	4	1,517	7,442

Other borrowed funds by remaining term

2011	2012	2013	2014	2015	2016	Years after 2016	Total
Loans contracted	884		76			617	1,577
Loans from credit institutions	5,088					642	5,730
	5,972	0	76	0	0	1,259	7,307

Notes to the Consolidated annual accounts of NN Group continued

17 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The Provision for insurance and investment contracts, net of reinsurance (i.e. the provision for NN Group's own account) is presented gross in the balance sheet as "Insurance and investment contracts". The related reinsurance is presented as "Reinsurance contracts" under Assets in the balance sheet.

Insurance and investment contracts, reinsurance contracts

	Provision net of reinsurance			Reinsurance contracts			Insurance and investment contracts		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Provision for non-participating life policy liabilities	**17,352**	62,797	88,492	**34**	5,065	5,534	**17,386**	67,862	94,026
Provision for participating life policy liabilities	**46,208**	47,801	52,753	**88**	87	102	**46,296**	47,888	52,855
Provision for (deferred) profit sharing and rebates	**3,799**	7,236	5,623		3	2	**3,799**	7,239	5,625
Life insurance provisions excluding provisions for risk of policyholders	**67,359**	117,834	146,868	**122**	5,155	5,638	**67,481**	122,989	152,506
Provision for life insurance for risk of policyholders	**38,038**	90,754	109,487	**49**	49	136	**38,087**	90,803	109,623
Life insurance provisions	**105,397**	208,588	256,355	**171**	5,204	5,774	**105,568**	213,792	262,129
Provision for unearned premiums and unexpired risks	**266**	265	297	**3**	2	4	**269**	267	301
Reported claims provision	**2,643**	2,621	2,620	**77**	82	89	**2,720**	2,703	2,709
Claims incurred but not reported (IBNR)	**595**	558	493	**1**	2	3	**596**	560	496
Claims provisions	**3,238**	3,179	3,113	**78**	84	92	**3,316**	3,263	3,205
Total provisions for insurance contracts	**108,901**	212,032	259,765	**252**	5,290	5,870	**109,153**	217,322	265,635
Investment contracts for risk of company	**810**	4,561	6,259				**810**	4,561	6,259
Investment contracts for risk of policyholders	**1,588**	8,067	6,939				**1,588**	8,067	6,939
Total provisions for investment contracts	**2,398**	12,628	13,198	**0**	0	0	**2,398**	12,628	13,198
Total	**111,299**	224,660	272,963	**252**	5,290	5,870	**111,551**	229,950	278,833

The deferred profit sharing amount on unrealised revaluation is included in Provision for (deferred) profit sharing and rebates and amounts to EUR 3,488 million as at 31 December 2013 (2012: EUR 6,304 million; 2011: EUR 3,721 million).

Notes to the Consolidated annual accounts of NN Group continued

Changes in life insurance provisions

2013	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)	Provisions for life insurance for risk of policyholder (net of reinsurance)	Reinsurance con-tracts	Life insurance provisions
Opening balance	117,834	90,754	5,204	213,792
Changes in the composition of the group and other changes	–41,848	–54,915	–4,770	–101,533
	75,986	35,839	434	112,259
Current year provisions	9,973	8,459	490	18,922
Change in deferred profit sharing liability	–2,309			–2,309
Prior year provisions:				
– benefit payments to policyholders	–17,361	–15,466	–756	–33,583
– interest accrual and changes in fair value of liabilities	3,932		35	3,967
– valuation changes for risk to policyholders		13,519		13,519
– effect of changes in other assumptions	151		–2	149
	–13,278	–1,947	–723	–15,948
Exchange rate differences	–3,013	–4,313	–30	–7,356
Closing balance	67,359	38,038	171	105,568

Changes in life insurance provisions

2012	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)	Provisions for life insurance for risk of policyholder (net of reinsurance)	Reinsurance contracts	Life insurance provisions
Opening balance	146,868	109,487	5,774	262,129
Changes in the composition of the group and other changes	–31,577	–23,852	–244	–55,673
	115,291	85,635	5,530	206,456
Current year provisions	13,221	9,122	381	22,724
Change in deferred profit sharing liability	2,889			2,889
Prior year provisions:				
– benefit payments to policyholders	–16,074	–14,919	–668	–31,661
– interest accrual and changes in fair value of liabilities	4,651		38	4,689
– valuation changes for risk to policyholders		13,909		13,909
– effect of changes in other assumptions	–275	–77	16	–336
	–11,698	–1,087	–614	–13,399
Exchange rate differences	–1,869	–2,916	–93	–4,878
Closing balance	117,834	90,754	5,204	213,792

Notes to the Consolidated annual accounts of NN Group continued

Changes in life insurance provisions

2011	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)	Provisions for life insurance for risk of policyholder (net of reinsurance)	Reinsurance contracts	Life insurance provisions
Opening balance	135,314	114,603	5,685	255,602
Changes in the composition of the group and other changes	–335	–2,517	–65	–2,917
	134,979	112,086	5,620	252,685
Current year provisions	13,774	7,623	636	22,033
Change in deferred profit sharing liability	1,963			1,963
Prior year provisions:				
– benefit payments to policyholders	–13,872	–11,812	–700	–26,384
– interest accrual and changes in fair value of liabilities	6,302		35	6,337
– valuation changes for risk to policyholders		–1,190		–1,190
– effect of changes in other assumptions	635	–17	–2	616
	–6,935	–13,019	–667	–20,621
Exchange rate differences	3,087	2,797	185	6,069
Closing balance	146,868	109,487	5,774	262,129

Where discounting is used in the calculation of life insurance provision, the rate is within the range of 2.3% to 4.0% (2012: 3.0% to 5.1%; 2011: 2.8% to 5.5%) based on weighted averages. The change is mainly due to a change in the composition of the portfolio.

Insurance provisions include a provision for the estimated cost of the agreement with regard to unit-linked policies. For more information reference is made to Note 48 “Legal proceedings”.

In 2013, Changes in the composition of the group and other changes includes EUR –129,516 million as a result of the transfer of ING U.S. and EUR 29,445 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

In 2012, “Changes in the composition of the group and other changes” related mainly to the classification of the insurance and investment management businesses in Asia as held for sale. Reference is made to Note 11 “Assets and liabilities held for sale”.

In 2011, “Changes in the composition of the group and other changes” included the transfers of certain insurance contracts.

“Effect of changes in other assumptions” relates mainly to the assumption refinement for the Insurance U.S. Closed Block VA business. This effect has been included as part of net result from discontinued operations in the Consolidated profit and loss account.

To the extent that the assuming reinsurers are unable to meet their obligations, NN Group is liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectable. The life reinsurance market is highly concentrated and, therefore, diversification of exposure is inherently difficult. To minimise its exposure to significant losses from reinsurer insolvencies, NN Group evaluates the financial condition of its reinsurers, monitors concentrations of credit risk arising from similar geographical regions, activities or economic characteristics of the reinsurer and maintains collateral. Reference is also made to the “Risk management” section.

As at 31 December 2013, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounts to EUR 343 million (2012: EUR 5,920 million; 2011: EUR 6,536 million). There was no provision for uncollectable reinsurance in 2013, 2012 and 2011.

Notes to the Consolidated annual accounts of NN Group continued

Changes in provision for unearned premiums and unexpired risks

	Provision net of reinsurance			Reinsurance contracts			Provision for unearned premiums and unexpired risk		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**265**	297	345	**2**	4	4	**267**	301	349
Changes in the composition of the group and other changes	**2**	–10	–23	**1**	–2		**3**	–12	–23
	267	287	322	**3**	2	4	**270**	289	326
Premiums written	**1,642**	1,693	1,682	**40**	40	43	**1,682**	1,733	1,725
Premiums earned during the year	**–1,643**	–1,715	–1,708	**–40**	–40	–43	**–1,683**	–1,755	–1,751
Exchange rate differences			1				**0**	0	1
Closing balance	**266**	265	297	**3**	2	4	**269**	267	301

Changes in claims provisions

	Provision net of reinsurance			Reinsurance contracts			Claims provision		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**3,179**	3,113	3,103	**84**	92	100	**3,263**	3,205	3,203
Changes in the composition of the group and other changes	**1**	–36	10	**–1**	–2		**0**	–38	10
	3,180	3,077	3,113	**83**	90	100	**3,263**	3,167	3,213
Additions:									
– for the current year	**1,176**	1,213	1,166	**9**	6	10	**1,185**	1,219	1,176
– for prior years	**–86**	–39	–71		2	–11	**–86**	–37	–82
– interest accrual of provision	**40**	45	40				**40**	45	40
	1,130	1,219	1,135	**9**	8	–1	**1,139**	1,227	1,134
Claim settlements and claim settlement costs:									
– for the current year	**–452**	–473	–472	**–1**	–1	–1	**–453**	–474	–473
– for prior years	**–618**	–643	–665	**–13**	–13	–6	**–631**	–656	–671
	–1,070	–1,116	–1,137	**–14**	–14	–7	**–1,084**	–1,130	–1,144
Exchange rate differences	**–2**	–1	2				**–2**	–1	2
Closing balance	**3,238**	3,179	3,113	**78**	84	92	**3,316**	3,263	3,205

NN Group has an outstanding balance of EUR 35 million as at 31 December 2013 (2012: EUR 36 million; 2011: EUR 35 million) relating to environmental and asbestos claims. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean-up, management of NN Group considers facts currently known including current legislation and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims provision the rate is, based on weighted averages, within the range of 3.0% to 4.0% (2012: 3.0% to 4.0%; 2011: 3.0% to 4.0%).

Notes to the Consolidated annual accounts of NN Group continued

Changes in investment contracts liabilities

	2013	2012	2011
Opening balance	**12,628**	13,198	11,974
Changes in the composition of the group and other changes	**–9,504**	53	702
	3,124	13,251	12,676
Current year liabilities	**3,773**	8,865	7,867
Prior year provisions:			
– payments to contract holders	**–4,522**	–9,471	–7,709
– interest accrual	**13**	30	39
– valuation changes investments	**69**	129	–55
	–4,440	–9,312	–7,725
Exchange rate differences	**–59**	–176	380
Closing balance	**2,398**	12,628	13,198

In 2013, Changes in the composition of the group and other changes includes EUR –9,402 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Gross claims development table

									Accident year		
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Estimate of cumulative claims:											
At the end of accident year	1,096	1,109	1,100	1,020	1,078	1,200	1,169	1,217	1,232	1,217	
1 year later	979	1,041	1,057	923	1,060	1,213	1,198	1,244	1,182		
2 years later	856	940	978	859	1,033	1,153	1,159	1,191			
3 years later	840	911	965	861	1,032	1,146	1,157				
4 years later	843	896	974	842	1,024	1,129					
5 years later	836	893	960	837	1,041						
6 years later	834	875	965	849							
7 years later	834	875	970								
8 years later	828	875									
9 years later	835										
Estimate of cumulative claims	835	875	970	849	1,041	1,129	1,157	1,191	1,182	1,217	10,446
Cumulative payments	–721	–775	–841	–679	–820	–867	–866	–793	–699	–453	–7,514
	114	100	129	170	221	262	291	398	483	764	2,932
Effect of discounting	–6	–13	–15	–24	–30	–32	–39	–54	–50	–34	–297
Liability recognised	108	87	114	146	191	230	252	344	433	730	2,635
Liability relating to accident years prior to 2004											681
Total amount recognised in the balance sheet											3,316

NN Group applies the exemption in IFRS-EU not to present Gross claims development for annual periods beginning before 1 January 2004 (the date of transition to IFRS-EU) as it is impracticable to obtain such information.

Notes to the Consolidated annual accounts of NN Group continued

18 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2013	2012	2011
Savings accounts	**5,769**	0	0

Customer deposits and other funds on deposit by type

	2013	2012	2011
Interest bearing	**5,769**	0	0

The retail banking activities of Nationale-Nederlanden have grown significantly during the year 2013, mainly due to the partial transfer of WestlandUtrecht Bank.

No funds have been entrusted to NN Group by customers on terms other than those prevailing in the normal course of business.

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

19 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss

	2013	2012	2011
Non-trading derivatives	**1,843**	3,258	4,404

The change in Financial liabilities at fair value through profit or loss includes EUR –2,290 million as a result of the transfer of ING U.S. and EUR 1,232 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Non-trading derivatives by type

	2013	2012	2011
Derivatives used in:			
– fair value hedges		203	264
– cash flow hedges	**215**	255	302
– hedges of net investments in foreign operations	**8**		12
Other non-trading derivatives	**1,620**	2,800	3,826
	1,843	3,258	4,404

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

Notes to the Consolidated annual accounts of NN Group continued

20 OTHER LIABILITIES

Other liabilities by type			
	2013	2012	2011
Deferred tax liabilities	**702**	1,220	1,843
Income tax payable	**86**	379	53
Net defined benefit liability	**51**	666	631
Other post-employment benefits	**40**	77	74
Other staff-related liabilities	**147**	254	502
Other taxation and social security contributions	**176**	101	148
Deposits from reinsurers	**58**	869	1,015
Accrued interest	**530**	593	812
Costs payable	**328**	702	1,079
Amounts payable to brokers	**4**	50	72
Amounts payable to policyholders	**464**	2,139	2,171
Reorganisation provision	**155**	275	79
Other provisions	**68**	84	134
Amounts to be settled	**772**	2,687	3,874
Other	**544**	855	1,300
	4,125	10,951	13,787

Disclosures in respect of Net defined benefit liabilities are provided in Note 38 “Pension and other post-employment benefits” and deferred tax liabilities are provided in Note 39 “Taxation”.

The change in Other liabilities includes EUR –4,451 million as a result of the transfer of ING U.S. and EUR 1,093 million as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Other staff-related liabilities include vacation leave provisions, variable compensation provisions, jubilee provisions and disability/illness provisions.

Other mainly relates to year-end accruals in the normal course of business.

The provision for the estimated cost of the agreement with regard to unit-linked policies is included in “Insurance and investment contracts” as disclosed in Note 17.

Changes in reorganisation provisions			
	2013	2012	2011
Opening balance	**275**	79	101
Changes in the composition of the group and other changes	**–10**	–13	–7
Additions	**68**	364	136
Releases	**–36**	–7	–6
Charges	**–142**	–148	–144
Exchange rate differences			–1
Closing balance	**155**	275	79

In 2013, Changes in the composition of the group and other changes includes EUR –10 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

In 2012, a reorganisation provision of EUR 198 million was recognised for the insurance operations in the Netherlands following the initiative to accelerate the transformation programme in preparation for the stand-alone future of NN Group. In response to changing customer preferences and market dynamics, NN Group is undertaking actions to increase its agility in the current operating environment by delayering the support staff structure in the Netherlands and sharpen the strategic focus of its business units, in particular Nationale-Nederlanden. These measures are expected to result in a reduction of the workforce of around 1,350 FTE’s by the end of 2014.

In 2013 EUR 63 million from the reorganisation provision has been used as a result of the workforce reduction. The remaining provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover the remaining costs of the transformation program. The remaining costs are costs for redundant employees in the mobility centre and future redundancies.

Notes to the Consolidated annual accounts of NN Group continued

In 2012 an additional reorganisation provision of EUR 55 million was recognised for the insurance operations in the Netherlands for the strategic initiatives announced in 2011. The main goals of the strategic initiative are to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. The remainder of this reorganisation provision will be incorporated with the above mentioned reorganisation provision per 2014.

In general Reorganisation provisions are of a short-term.

Changes in other provisions

		Litigation			Other			Total	
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Opening balance	**21**	41	54	**63**	93	90	**84**	134	144
Changes in the composition of the group and other changes	**–13**	–10	–3	**30**	4	20	**17**	–6	17
Additions		9	7	**9**	14	27	**9**	23	34
Releases		–14	–7	**–3**	–32	–3	**–3**	–46	–10
Charges	**–4**	–3	–8	**–30**	–14	–34	**–34**	–17	–42
Exchange rate differences	**–1**	–2	–2	**–4**	–2	–7	**–5**	–4	–9
Closing balance	**3**	21	41	**65**	63	93	**68**	84	134

In general Other provisions are of a short-term nature.

The amounts included in Other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Notes to the Consolidated annual accounts of NN Group continued

PROFIT AND LOSS ACCOUNT
CONTINUING OPERATIONS
21 GROSS PREMIUM INCOME

Gross premium income	2013	2012	2011
Gross premium income from life insurance policies	**7,848**	8,972	9,597
Gross premium income from non-life insurance policies	**1,682**	1,733	1,695
	9,530	10,705	11,292

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

Effect of reinsurance on premiums written		Non-Life			Life			Total	
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Direct gross premiums written	**1,656**	1,709	1,672	**7,842**	8,973	9,592	**9,498**	10,682	11,264
Reinsurance assumed gross premiums written	**26**	24	23	**6**	–1	5	**32**	23	28
Total gross premiums written	**1,682**	1,733	1,695	**7,848**	8,972	9,597	**9,530**	10,705	11,292
Reinsurance ceded	**–40**	–40	–39	**–103**	–100	–103	**–143**	–140	–142
	1,642	1,693	1,656	**7,745**	8,872	9,494	**9,387**	10,565	11,150

Effect of reinsurance on non-life premiums earned	2013	2012	2011
Direct gross premiums earned	**1,657**	1,731	1,699
Reinsurance gross assumed premiums earned	**26**	24	23
Total gross premiums earned	**1,683**	1,755	1,722
Reinsurance ceded	**–40**	–40	–39
	1,643	1,715	1,683

See Note 28 “Underwriting expenditure” for disclosure on reinsurance ceded.

22 INVESTMENT INCOME

Investment income

	2013	2012	2011
Income from real estate investments	**50**	54	50
Dividend income	**180**	196	213
	230	250	263
Interest income from investments in debt securities	**1,922**	2,088	2,146
Interest income from loans:			
– unsecured loans	**176**	235	293
– mortgage loans	**416**	442	444
– policy loans	**8**	9	9
– other	**119**	40	117
Interest income from investments in debt securities and loans	**2,641**	2,814	3,009
Realised gains/losses on disposal of debt securities	**185**	–117	–35
Impairments of available-for-sale debt securities		–15	–584
Realised gains/losses and impairments of debt securities	**185**	–132	–619
Realised gains/losses on disposal of equity securities	**127**	444	368
Impairments of available-for-sale equity securities	**–172**	–144	–173
Realised gains/losses and impairments of equity securities	**–45**	300	195
Interest income on non-trading derivatives	**614**	556	634
Change in fair value of real estate investments	**–6**	–49	1
Investment income	**3,619**	3,739	3,483

In 2013, an impairment of nil (2012: nil; 2011: EUR 390 million) was recognised on Greek government bonds and an impairment of nil (2012: nil; 2011: EUR 189 million) was recognised on subordinated debt from Irish banks. Both are included in Impairments of available-for-sale debt securities. Reference is made to the “Risk management” section for further information on these impairments.

Impairments on investments are presented within Investment Income, which is part of Total income. This can be specified for each segment as follows:

Impairments on investments per segment

			Impairments
	2013	2012	2011
Netherlands Life	**–156**	–131	–281
Netherlands Non-life	**–10**	–9	–42
Insurance Europe	**–3**	–16	–425
Japan Life		–1	
Other	**–3**	–2	–9
	–172	–159	–757

23 RESULT ON DISPOSALS OF GROUP COMPANIES

The result on disposal of the insurance businesses in Hong Kong, Macau and Thailand, the investment management businesses in Malaysia and Thailand and ING Life Korea (2012: the insurance business in Malaysia; 2011: Latin American operations) is not included in “Result on disposals of group companies” but in “Result on disposal of discontinued operations”. Reference is made to Note 33 “Discontinued operations”.

Notes to the Consolidated annual accounts of NN Group continued

Result on disposal of group companies			
	2013	2012	2011
ING Hipotecaria	**–64**		
Other	**19**		–4
	–45	0	–4

Reference is made to Note 49 “Companies and businesses acquired and divested” for more details.

24 COMMISSION INCOME

Gross fee and commission income			
	2013	2012	2011
Insurance broking	**89**	97	99
Asset management fees	**716**	687	755
Brokerage and advisory fees	**4**	7	6
Other	**147**	133	477
	956	924	1,337

Asset management fees related to the management of investments held for the risk of policyholders of EUR 36 million (2012: EUR 41 million; 2011: EUR 46 million) are included in Commission Income.

Fee and commission expenses			
	2013	2012	2011
Management fees	**20**	28	108
Brokerage and advisory fees			1
Other	**310**	303	591
	330	331	700

“Other” mainly relates to trailer fees paid to third parties.

25 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives			
	2013	2012	2011
Change in fair value of derivatives relating to:			
– fair value hedges	**–6**	6	–3
– cash flow hedges (ineffective portion)	**50**	–13	–16
– other non-trading derivatives	**–2,662**	–2,285	1,042
Net result on non-trading derivatives	**–2,618**	–2,292	1,023
Change in fair value of assets and liabilities (hedged items)	**3**	–6	3
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	**–276**	–276	–1
Net valuation results	**–2,891**	–2,574	1,025

Included in Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in Underwriting expenditure. Reference is made to Note 28 “Underwriting expenditure”.

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

26 FOREIGN CURRENCY RESULTS AND NET TRADING INCOME

Foreign currency results and Net trading income

	2013	2012	2011
Foreign currency results	**108**	481	–180
Net trading income	**108**	91	37
Other	**–30**	–33	26
	186	539	–117

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

27 OTHER INCOME

In 2011, Other income includes a gain of EUR 95 million on the repurchase of subordinated loans as disclosed in Note 14 “Subordinated loans”.

28 UNDERWRITING EXPENDITURE

Underwriting expenditure

	2013	2012	2011
Gross underwriting expenditure:			
– before effect of investment result for risk of policyholder	**8,655**	10,350	13,238
– effect of investment result for risk of policyholder	**4,930**	5,517	206
	13,585	15,867	13,444
Investment result for risk of policyholders	**–4,930**	–5,517	–206
Reinsurance recoveries	**–70**	–73	–81
Underwriting expenditure	**8,585**	10,277	13,157

The investment income and valuation results regarding investments for risk of policyholders is EUR 4,930 million (2012: EUR 5,517 million; 2011: EUR 206 million). This amount is not recognised in “Investment income” nor “Valuation results on assets and liabilities designated as at fair value through profit or loss” but are in Underwriting expenditure. As a result it is shown together with the equal amount of related change in insurance provisions for risk of policyholders.

Notes to the Consolidated annual accounts of NN Group continued

Underwriting expenditure by class

	2013	2012	2011
Expenditure from life underwriting			
Reinsurance and retrocession premiums	**103**	100	103
Gross benefits	**11,576**	10,860	9,250
Reinsurance recoveries	**–58**	–61	–72
Change in life insurance provisions	**–6,429**	–2,592	1,830
Costs of acquiring insurance business	**1,863**	496	474
Other underwriting expenditure	**92**	75	84
Profit sharing and rebates	**51**	24	112
	7,198	8,902	11,781
Expenditure from non-life underwriting			
Reinsurance and retrocession premiums	**40**	40	39
Gross claims	**1,077**	1,103	1,086
Reinsurance recoveries	**–12**	–12	–9
Changes in the provision for unearned premiums	**–1**	–22	–27
Changes in the claims provision	**70**	109	5
Costs of acquiring insurance business	**258**	263	261
Other underwriting expenditure	**1**		–2
	1,433	1,481	1,353
Expenditure from investment contracts			
Costs of acquiring investment contracts	**1**	2	3
Other changes in investment contract liabilities	**–47**	–108	20
	–46	–106	23
	8,585	10,277	13,157

Profit sharing and rebates

	2013	2012	2011
Distributions on account of interest or underwriting results	**–26**	–28	21
Bonuses added to policies	**77**	52	91
	51	24	112

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 2,122 million (2012: EUR 761 million; 2011: EUR 738 million). This includes amortisation and unlocking of DAC of EUR 1,892 million (2012: EUR 1,066 million; 2011: EUR 1,702 million) and the net amount of commissions paid of EUR 854 million (2012: EUR 1,369 million; 2011: EUR 623 million) and commissions capitalised in DAC of EUR 624 million (2012: EUR 1,674 million; 2011: EUR 1,587 million). In 2013, Cost of acquiring insurance business includes the reduction of DAC of EUR 1,405 million for Japan Closed Block VA as explained below.

The total amount of commission paid and commission payable amounted to EUR 841 million (2012: EUR 897 million; 2011: EUR 903 million). This includes the commissions recognised in Costs of acquiring insurance business of EUR 854 million (2012: EUR 1,369 million; 2011: EUR 623 million) referred to above and commissions recognised in Other underwriting expenditure of EUR –13 million (2012: EUR –472 million; 2011: EUR 280 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 16 million (2012: EUR 23 million; 2011: EUR 26 million).

In 2013, “Change in life insurance provisions” includes an amount of EUR 177 million as a result of the refined market interest rate assumption that is used in determining certain components of the insurance liabilities for the separate account pension business in the Netherlands.

As set out in the section “Principles of valuation and determination of results – Insurance, investment and reinsurance contracts”, ING applies, for certain specific products or components thereof, the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market-consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan. The impact of these market-consistent assumptions is reflected in “Underwriting expenditure – Change in life insurance provisions”.

Notes to the Consolidated annual accounts of NN Group continued

This impact was largely offset by the impact of related hedging derivatives. As disclosed in Note 28 “Valuation results on non-trading derivatives”, the valuation results on non-trading derivatives include the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. For insurance operations, these derivatives hedge exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in Insurance contract liabilities, which are included in Underwriting expenditure.

The “Change in life insurance provision” in 2013 includes a larger release from Insurance provisions compared to 2012 following an increase in benefit payments and lower premium income. “Underwriting expenditure – Gross benefits” increased by EUR 716 million in 2013 compared to 2012, which was largely offset by lower “Changes in life insurance provisions”. Gross premium income in 2013 was EUR 1,175 million lower compared to 2012. Furthermore, “Change in life insurance provision” in 2013 includes a release of EUR 867 million related to Japan Closed block VA as explained below.

In 2013, the separate reporting of the Japan Closed Block VA business line triggered a charge of EUR 575 million before tax to restore the reserve inadequacy of that business line to the 50% confidence level. This charge includes a reduction of DAC of EUR 1,405 million (included in “Underwriting expenditure – Costs of acquiring insurance business”, which is partly offset by a release of the life insurance provision related to unearned revenues of EUR 867 million (included in “Underwriting expenditure – Change in life insurance provisions”). Reference is made to Note 53 “Other events”.

29 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) other impairments

	2013	2012	2011
Property and equipment	**1**	1	1
Goodwill		56	
Software and other intangible assets	**2**	2	34
(Reversals of) other impairments	**3**	59	35
Amortisation of other intangible assets	**8**	10	7
	11	69	42

Reference is made to Note 9 “Intangible assets” for more details.

Impairment on Loans and advances to customers are presented under Investment income. Reference is made to the “Risk management” section for further information on impairments.

30 STAFF EXPENSE

Staff expense

	2013	2012	2011
Salaries	**747**	759	799
Pension costs	**67**	–146	35
Other staff related benefit costs	**–8**	35	4
Social security costs	**101**	105	95
Share-based compensation arrangements	**11**	16	15
External employees	**206**	207	139
Education	**14**	18	15
Other staff costs	**40**	43	26
	1,178	1,037	1,128

In 2013 and 2012, the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150,000 of each employee, subject to Dutch income tax. The tax is charged to NN Group and does not affect the remuneration of involved staff. The tax imposed on NN Group for relevant employees amounts to EUR 6.0 million (2012:EUR 5.8 million) which is included in the amounts in the table above.

Notes to the Consolidated annual accounts of NN Group continued

Number of employees

	Netherlands			International			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Continuing operations – average number of employees at full time equivalent basis	**6,217**	6,868	7,305	**4,995**	5,643	5,796	**11,212**	12,511	13,101
Discontinued operations – average number of employees at full time equivalent basis				**7,285**	13,182	20,143	**7,285**	13,182	20,143
Total average number of employees at full time equivalent basis	**6,217**	6,868	7,305	**12,280**	18,825	25,939	**18,497**	25,693	33,244

Remuneration of senior management, Management Board and Supervisory Board
Reference is made to Note 52 "Related parties".

Stock option and share plans
NN Group's ultimate parent, ING Groep N.V., has granted option rights on ING Groep N.V. shares and conditional rights on depositary receipts (share awards) for ING Group shares to a number of senior executives (members of the management board, general managers and other officers nominated by the Management Board NN Group) and to a considerable number of employees of NN Group. The purpose of the option and share schemes, is to attract, retain and motivate senior executives and staff.

In 2012, ING granted three types of share awards, deferred shares, performance shares and upfront shares. The entitlement to the share awards was granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING depositary receipts that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of NN Group, as well as Identified staff. ING has the authority to apply a hold back to awarded but unvested shares and a claw-back to vested shares.

In 2013, 58,954 share awards (2012: 509,553; 2011: 25,370) were granted to the Management Board NN Group. To senior management and other employees of NN Group 2,584,479 share awards (2012: 9,506,061; 2011: 8,819,873) were granted.

Every year, the Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010 the Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2011 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

As at 31 December 2013, no own shares were held in order to fulfil its obligations with regard to the existing stock option plan. As at 31 December 2012: 26,429,948 own shares (2011: 42,126,329) were held in connection with the option plan.

The obligations with regard to the share plans will be funded either by cash or by newly issued shares.

The tables below disclose the option rights outstanding for employees of NN Group.

Changes in option rights outstanding

	Options outstanding (in number)			Weighted average exercise price (in euros)		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**33,821,638**	44,189,864	49,162,987	**14.68**	14.71	14.97
Exercised or transferred	**–19,602,450**	–1,993,691	2,170,169	**14.56**	3.42	21.49
Forfeited	**–553,906**	–1,021,065	–1,259,217	**14.43**	10.62	12.68
Expired	**–3,477,340**	–7,353,470	–5,884,075	**11.48**	18.40	20.06
Closing balance	**10,187,942**	33,821,638	44,189,864	**15.99**	14.68	14.71

In 2013, "Exercised or transferred" includes 16,750,023 option rights related to ING U.S., which was transferred to ING Group. Reference is made to Note 53 "Other events".

Notes to the Consolidated annual accounts of NN Group continued

As at 31 December 2013 total options outstanding consists of 3,302,570 options (2012: 29,804,428; 2011: 39,333,056) relating to equity-settled share-based payment arrangements and 6,885,372 options (2012: 4,017,210; 2011: 4,856,808) relating to cash-settled share-based payment arrangements.

The weighted average share price at the date of exercise for options exercised in 2013 is EUR 8.24 (2012: EUR 6.15; 2011: EUR 8.09).

Changes in option rights non-vested

	Options non-vested (in number)			Weighted average grant date fair value (in euros)		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**6,180,625**	14,164,245	21,552,537	**3.27**	2.61	3.01
Vested or transferred	**–6,012,595**	–7,333,710	–6,580,861	**3.27**	2.05	3.88
Forfeited	**–168,030**	–649,910	–807,431	**3.27**	2.74	3.03
Closing balance	**0**	6,180,625	14,164,245	**0.00**	3.27	2.61

Summary of stock options outstanding and exercisable

2013 Range of exercise price in euros	**Options outstanding as at 31 December 2013**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2013**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**904,094**	**5.07**	**2.90**	**904,094**	**5.07**	**2.90**
5.00 – 10.00	**1,892,578**	**6.21**	**7.36**	**1,892,578**	**6.21**	**7.36**
10.00 – 15.00	**1,002,815**	**0.39**	**14.37**	**1,002,815**	**0.39**	**14.37**
15.00 – 20.00	**3,537,026**	**2.79**	**17.23**	**3,537,026**	**2.79**	**17.23**
20.00 – 25.00	**1,389,814**	**3.11**	**24.59**	**1,389,814**	**3.11**	**24.59**
25.00 – 30.00	**1,461,615**	**2.23**	**25.17**	**1,461,615**	**2.23**	**25.17**
	10,187,942			**10,187,942**		

Summary of stock options outstanding and exercisable

2012 Range of exercise price in euros	Options outstanding as at 31 December 2012	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2012	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	4,491,078	6.17	2.90	4,491,078	6.17	2.90
5.00 – 10.00	8,364,153	5.43	7.80	2,183,528	0.34	9.06
10.00 – 15.00	2,774,702	1.27	14.31	2,774,702	1.27	14.31
15.00 – 20.00	9,725,616	3.73	17.26	9,725,616	3.73	17.26
20.00 – 25.00	4,004,382	4.17	24.58	4,004,382	4.17	24.58
25.00 – 30.00	4,461,707	3.23	25.17	4,461,707	3.23	25.17
	33,821,638			27,641,013		

Notes to the Consolidated annual accounts of NN Group continued

Summary of stock options outstanding and exercisable

2011 Range of exercise price in euros	Options outstanding as at 31 December 2011	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2011	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	6,809,837	7.18	2.90			
5.00 – 10.00	9,591,024	6.58	7.78	2,236,616	1.19	9.12
10.00 – 15.00	3,172,161	2.27	14.30	3,172,161	2.27	14.30
15.00 – 20.00	12,305,273	4.24	17.08	12,305,273	4.24	17.08
20.00 – 25.00	7,104,328	3.23	23.80	7,104,328	3.23	23.80
25.00 – 30.00	5,207,241	4.27	25.18	5,207,241	4.27	25.18
	44,189,864			30,025,619		

As at 31 December 2013, the aggregate intrinsic value of options outstanding and exercisable are EUR 12 million and EUR 12 million, respectively (2012: EUR 19 million and EUR 19 million respectively and 2011: EUR 18 million and nil respectively).

As at 31 December 2013, unrecognised compensation costs related to stock options amounted to nil (2012: EUR 1 million; 2011: EUR 10 million).

The fair value of options granted is recognised as an expense in staff expenses and is allocated over the vesting period of the options. The fair value of the option awards have been determined by using a Monte Carlo simulation model. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 26.05), the expected volatility of the certificates of ING Groep N.V. shares (25% – 84%) and the expected dividend yield (0.94% – 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING Group's trading system. The implied volatilities in this system are determined by ING Group's traders and are based on market data implied volatilities, not on historical volatilities.

31 INTEREST EXPENSE

Other interest expense mainly consist of interest on the subordinated loans.

In 2013, total interest income and total interest expense for items not valued at fair value through profit or loss were EUR 2,641 million and EUR –255 million respectively (2012: EUR 2,814 million and EUR –303 million respectively; 2011: EUR 3,009 million and EUR –378 million respectively). Net interest income of EUR 2,050 million is presented in the following lines in the profit and loss account.

Total net interest income

	2013	2012	2011
Investment income 22	**2,641**	2,814	3,009
Interest expense on non-trading derivatives	**–336**	–302	–350
Other interest expense	**–255**	–303	–378
	2,050	2,209	2,281

Notes to the Consolidated annual accounts of NN Group continued

32 OTHER OPERATING EXPENSE

Other operating expense	2013	2012	2011
Depreciation of property and equipment	**37**	31	29
Amortisation of software	**54**	50	36
Computer costs	**219**	203	173
Office expense	**133**	138	144
Travel and accommodation expenses	**17**	23	35
Advertising and public relations	**51**	52	49
External advisory fees	**116**	172	198
Postal charges	**9**	3	–1
Addition/(releases) of provision for reorganisations and relocations	**6**	254	43
Other	**206**	348	387
	848	1,274	1,093

Other operating expense include lease and sublease payments for the amount of EUR 13 million (2012: EUR 11 million; 2011: EUR 2 million) in respect of operating leases in which NN Group is the lessee. No individual operating lease has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of NN Group.

For Addition/(releases) of provision for reorganisation and relocations reference is made to the disclosure on the reorganisation provision in Note 20 “Other liabilities”.

DISCONTINUED OPERATIONS

33 DISCONTINUED OPERATIONS

As at 31 December 2013, ING U.S. and the remaining insurance and investment management businesses in Asia (“Asia”), excluding NN Group’s business in Japan are classified as discontinued operations.

ING U.S.

At 30 September 2013, the remaining interest in ING U.S. was transferred to ING Groep N.V. As of the date of transfer, ING U.S. ceased to be consolidated; the results for the period until transfer are presented as discontinued operations.

NN Group’s business in Japan

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group’s European insurance and investment management businesses in the base case IPO of NN Group in 2014.

As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re (“NN Group’s business in Japan”) are no longer classified as discontinued operations. All references to Asia in this disclosure therefore, refer to the insurance and investment management businesses in Asia other than NN Group’s business in Japan.

Reference is made to Note 53 “Other events”.

In 2011, the pension, life insurance and investment management activities in Latin America (“Latin America”) were classified as discontinued operations. The divestment of Latin America was completed in December 2011.

Total net result from discontinued operations	2013	2012	2011
ING U.S.	**–174**	502	–635
Asia	**219**	337	319
Latin America			114
Net result from discontinued operations	**45**	839	–202
Net result from classification as discontinued operations Asia	**–42**	–394	
Net result from disposal of discontinued operations [1]	**17**	752	995
Total net result from discontinued operations	**20**	1,197	793

[1] The tax effect on the result on disposal of discontinued operations is nil.

Notes to the Consolidated annual accounts of NN Group continued

Net result from discontinued operations consists of the net result (after tax) of the businesses classified as discontinued operations and is presented separately in the profit and loss account. Net result from ING U.S. included in Net result from discontinued operations covers the period from the beginning of the year, till 30 September 2013 when it was transferred to ING Groep N.V.

Net result from discontinued operations was as follows:

Result from discontinued operations

	2013	2012	2011
Total income	**13,354**	21,840	22,358
Total expenses	**13,174**	20,909	22,567
Result before tax from discontinued operations	**180**	931	–209
Taxation	**135**	92	–7
Net result from discontinued operations	**45**	839	–202

In 2013, “Net result from classification as discontinued operations Asia” included a goodwill write-off of EUR 42 million in Investment Management Taiwan. In 2012, “Net result from classification as discontinued operations Asia” included goodwill write-offs of EUR 200 million in ING Life Korea, EUR 180 million in Investment Management Korea and EUR 15 million in ING Vysya Life Insurance. Reference is made to Note 11 “Assets and liabilities held for sale”.

In 2013, “Net result from disposal of discontinued operations” includes mainly the divestment gain on the sale of the insurance businesses in Hong Kong, Macau and Thailand of EUR 944 million and the divestment loss of EUR 989 million on the sale of ING Life Korea. In 2012, “Net result from disposal of discontinued operations” included the divestment gain on the sale of the insurance business in Malaysia. In 2011, Net result from disposal of discontinued operations included the divestment gain on the sale of Latin America. Reference is made to Note 49 “Companies and businesses acquired and divested”.

The net cash flow from discontinued operations was as follows:

Net cash flow from discontinued operations

	2013	2012	2011
Operating cash flow	**–5,751**	1,171	3,655
Investing cash flow	**3,961**	–2,075	929
Financing cash flow	**–642**	1,351	–4,613
Net cash flow	**–2,432**	447	–29

Sales proceeds in cash are presented in the Consolidated statement of cash flows under “Net cash flow from investment activities – Disposals and redemptions: group companies”. The proceeds relating to the IPO of ING U.S. are presented in the Consolidated statement of cash flows under “Proceeds of IPO ING U.S.”. These proceeds are not included in the table above.

The activities of ING U.S. were, prior to the transfer of ING U.S., reported in the segments Insurance United States, Insurance Closed Block VA, Investment management US and in the Corporate line US. Due to the transfer, these segments ceased to exist.

The insurance and investment management businesses in Asia were previously included respectively in the segments Insurance Asia/Pacific, Investment Management and in Other before they were classified as discontinued operations and held for sale. The segment Insurance Asia/Pacific ceased to exist in 2012, following the classification as discontinued operations, as all activities previously included in this segment are now discontinued operations.

STATEMENT OF CASH FLOWS

34 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or divested is presented in Note 49 “Companies and businesses acquired and divested”.

35 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received or paid

	2013	2012	2011
Interest received	**3,806**	3,558	3,861
Interest paid	**–595**	–612	–811
	3,211	2,946	3,050
Dividend received	**217**	252	340
Dividend paid	**–882**		

Interest received, interest paid and dividends received are included in operating activities in the Consolidated statement of cash flows. Dividend paid is included in financing activities in the Consolidated statement of cash flows.

OTHER

36 SEGMENTS

NN Group’s segments are based on the internal reporting structure by lines of business. The segments Insurance United States, Insurance US Closed Block VA, Investment Management US and Corporate line US ceased to exist due to the transfer of ING U.S. In 2012, the segment Insurance Asia/Pacific ceased to exist. Furthermore during 2013, NN Group has adjusted its reporting structure to better align its segmentation with the businesses that it comprises, their governance and internal management, and to reflect the decision to include ING Japan with the intended IPO of NN Group. Reference is made to Note 53 “Other events”. The comparatives have been adjusted to reflect the new segment structure.

The new reporting segments for NN Group are as follows:

Segments of NN Group
Netherlands Life
Netherlands Non-life
Insurance Europe
Japan Life
Investment Management (IM)
Other
Japan Closed Block VA

The Management Board NN Group sets the performance targets and approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Management Board.

The accounting policies of the segments are the same as those described in Note 1 “Accounting policies”. Transfer prices for inter-segment transactions are set at arm’s length. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income and/or assets of the segment.

As of 2013, NN Group evaluates the results of its segments using a financial performance measure called operating result. Operating result is defined as result under IFRS-EU excluding the impact of non-operating items, divestments, discontinued operations and special items. Disclosures on comparative years also reflect the impact of current year’s divestments. Non-operating items include realised capital gains/losses and impairments on debt and equity securities, revaluations on assets marked-to-market through the profit and loss account and other non-operating market impacts. Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary operating activities.

The operating result for the life insurance business is analysed through a margin analysis, which includes the investment margin, fees and premium-based revenues and the technical margin. Operating result as presented below is a non-GAAP financial measure and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, operating result as presented by NN Group may not be comparable to other similarly titled measures of performance of other companies.

Notes to the Consolidated annual accounts of NN Group continued

The operating result of NN Group's segments is reconciled to the Net result as reported in the IFRS-EU Consolidated profit and loss account below.

The information presented in this note is in line with the information presented to the Management Board NN Group.

The following table specifies the main sources of income of each of the segments:

Specification of the main source of income of each of the segments

Segment	Main source of income
Netherlands Life	Income from group life and individual life insurance products in the Netherlands
Netherlands Non-life	Income from non-life insurance in the Netherlands including disability and accident, fire, motor and transport insurance
Insurance Europe	Income from life insurance, pension products and to a small extent non-life insurance and retirement services in Central and Rest of Europe
Japan Life	Income from life insurance primarily Corporate Owned Life Insurance (COLI) business
Investment Management (IM)	Income from investment management activities.
Other	Income from banking activities in the Netherlands, corporate reinsurance and items related to capital management.
Japan Closed Block VA	Consists of the closed block single premium variable annuity individual life insurance portfolio in Japan, including the internally reinsured minimum guarantee risk, which has been closed to new business and which is now being managed in run-off.

In addition to these segments, NN Group reconciles the total segment results to the total result using Insurance Other. Insurance Other reflects the share in the result of the Brazilian insurer Sul América and overhead expenses of ING Group allocated to NN Group. As of 2014, Insurance Other will cease to exist.

This note does not provide information on the revenue specified to each product or service as this is not reported internally and is therefore not readily available.

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

- Non-operating items: related to (general account) investments that are held for own risk (net of policyholder profit sharing):
  - Capital gains/losses and impairments: realised gains and losses as well as impairments on financial assets that are classified as available for sale. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds as well as loans quoted in active markets.
  - Revaluations: revaluations on assets marked-to-market through the Consolidated profit and loss account. These investments include private equity (associates), real estate (property and associates), derivatives unrelated to product hedging programs (i.e. interest rate swaps, foreign exchange hedges) and direct equity hedges.
  - Market & other impacts: these impacts mainly comprise the change in the provision for guarantees on separate account pension contracts (net of hedging) in the Netherlands, the equity related and other deferred acquisition costs unlocking for Japan Closed-Block VA as well as the accounting volatility related to the reinsurance of minimum guaranteed benefits of Japan Closed-Block VA.
- Result on divestments: result before tax related to divested operations.
- Special items before tax: items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary business activities and therefore are not expected to recur frequently or regularly. This includes for instance restructuring expenses, goodwill impairments, results related to early retirement of debt and gains/losses from employee pension plan amendments or curtailments.
- Total net result from discontinued operations: Reference is made to Note 33 "Discontinued operations".

Notes to the Consolidated annual accounts of NN Group continued

Segments

2013	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Insurance Other	Total
Investment margin	557		105	7	1				669
Fees and premium based revenues	461		507	436	444		136		1,984
Technical margin	237		191	2					431
Operating income non-modelled life business			20						20
Life & IM operating income	1,255	0	824	445	445	0	136	0	3,104
Administrative expenses	472		310	106	314		18	18	1,238
DAC amortisation and trail commissions	75		319	177			38		609
Life & IM expenses	547	0	630	283	314	0	56	18	1,847
Life & IM operating result	709	0	194	162	131	0	80	–18	1,257
Non-life operating result		79	5						84
Operating result Other						–373			–373
Operating result	709	79	199	162	131	–373	80	–18	968
Non-operating items:									
– gains/losses and impairments	–43	–1	55	42		44	1		98
– revaluations	27	5	–3	–11		–14			3
– market & other impacts	–329						–750		–1,079
Special items before tax	–22	–16	–9			–79			–126
Result on divestments	5					–50		129	84
Result before tax from continuing operations	347	66	243	192	131	–473	–669	111	–52
Taxation	65	14	77	71	34	–93	–214	–4	–50
Minority interests	6		9						16
Net result from continuing operations	276	53	156	121	97	–380	–454	115	–18
Total net result from discontinued operations					31	164		–167	28
Net result	276	53	156	121	127	–216	–454	–52	10

Result on divestments reflects the sale of NN Group’s direct interest in Sul América S.A. and the sale of ING Hipotecaria.

Special items in 2013 is primarily related to the previously announced restructuring programme and additional IT expenses which is partly offset by pension curtailments in the Netherlands.

Reference is made to Note 33 “Discontinued operations” for information on discontinued operations.

Notes to the Consolidated annual accounts of NN Group continued

Segments

2012	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Insurance Other	Total
Investment margin	562		122	10					694
Fees and premium based revenues	508		514	490	430		148		2,092
Technical margin	141		210	23					374
Operating income non-modelled life business			20						20
Life & IM operating income	1,211	0	866	523	430	0	148	0	3,177
Administrative expenses	495		334	130	321		13	22	1,315
DAC amortisation and trail commissions	92		321	197			50		660
Life & IM expenses	587	0	654	328	321	0	64	22	1,976
Life & IM operating result	623	0	212	196	109	0	85	–22	1,202
Non-life operating result		103	7						110
Operating result Other						–399			–399
Operating result	623	103	219	196	109	–399	85	–22	914
Non-operating items:									
– gains/losses and impairments	138	1	–82	4	1	10			70
– revaluations	–296	–15	17	10		–34			–319
– market & other impacts	–530		–1				21		–510
Special items before tax	–225	–140	–38		–6	–43			–451
Result on divestments	–23					–7		80	50
Result before tax from continuing operations	–313	–51	115	209	105	–474	105	59	–245
Taxation	–162	–16	25	69	27	–84	33	–5	–113
Minority interests	12		9						21
Net result from continuing operations	–164	–35	81	140	77	–388	72	64	–153
Total net result from discontinued operations					–212	910		494	1,191
Net result	–164	–35	81	140	–135	523	72	558	1,038

Special items in 2012 includes costs mainly related to the strategic reorganisation measures of approximately EUR 207 million, the separation and IPO preparation of EUR 221 million, which is partly offset by a pension curtailment of EUR 100 million following the new Dutch employee pension scheme announced in 2012.

Reference is made to Note 33 “Discontinued operations” for information on discontinued operations.

Notes to the Consolidated annual accounts of NN Group continued

Segments

2011	Nether-lands Life	Nether-lands Non-life	Insu-rance Europe	Japan Life	IM	Other	Japan Closed Block VA	Insu-rance Other	Total
Investment margin	596		159	2	3				760
Fees and premium based revenues	499		548	437	434		149		2,065
Technical margin	278		206	–4					479
Operating income non-modelled life business	36		9						45
Life & IM operating income	1,409	0	921	434	437	0	149	0	3,350
Administrative expenses	533		353	129	313		9	28	1,364
DAC amortisation and trail commissions	109		307	187			50		652
Life & IM expenses	641	0	659	315	313	0	59	28	2,015
Life & IM operating result	768	0	262	119	124	0	91	–28	1,335
Non-life operating result		186	4						191
Operating result Other						–313			–313
Operating result	768	186	266	119	124	–313	91	–28	1,213
Non-operating items:									
– gains/losses and impairments	193	–45	–599	7	5	6			–433
– revaluations	72	5	–16	1		–39			23
– market & other impacts	–250						47		–202
Special items before tax	–83	–53	–90		–10	22			–214
Result on divestments						–8		92	83
Result before tax from continuing operations	700	93	–439	126	118	–333	138	64	468
Taxation	85	19	–49	–29	34	–95	57	–7	15
Minority interests	4		10						14
Net result from continuing operations	611	75	–400	156	85	–238	81	71	439
Total net result from discontinued operations					24	1,398		–635	787
Net result	611	75	–400	156	109	1,160	81	–564	1,226

Result on divestments in 2011 reflects the results on the sale of IIM Australia and Pacific Antai Life Insurance Company Ltd.

Special items in 2011 includes mainly, an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities, the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 27 “Other income” and Note 14 “Subordinated loans”, and restructuring expenses.

Reference is made to Note 33 “Discontinued operations” for information on discontinued operations.

Interest income and interest expenses breakdown by segments

2013	Nether-lands Life	Nether-lands Non-life	Insu-rance Europe	Japan Life	IM	Other	Japan Closed Block VA	Total
Interest income	1,995	110	566	146	1	103	334	3,255
Interest expense	93		21	2		156	319	591
	1,902	110	545	144	1	–53	15	2,664

Notes to the Consolidated annual accounts of NN Group continued

Interest income and interest expenses breakdown by segments

2012	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Total
Interest income	1,983	122	660	188	4	110	303	3,370
Interest expense	118	1	6	3	2	203	272	605
	1,865	121	654	185	2	–93	31	2,765

Interest income and interest expenses breakdown by segments

2011	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	IM	Other	Japan Closed Block VA	Total
Interest income	2,187	139	689	158	6	19	445	3,643
Interest expense	221	1	7	3	5	115	376	728
	1,966	138	682	155	1	–96	69	2,915

IFRS-EU balance sheets by segment are not reported internally to, and not managed by, the chief operating decision maker.

Total assets and Total liabilities by segment

	2013		2012		2011	
	Total assets	Total liabilities	Total assets	Total liabilities	Total assets	Total liabilities
Netherlands Life	**79,087**	**69,154**	82,098	71,227	82,150	70,048
Netherlands Non-life	**4,426**	**3,692**	4,372	3,818	4,100	3,642
Insurance Europe	**22,004**	**20,175**	24,482	22,486	22,489	20,863
Japan Life	**9,438**	**8,147**	10,998	9,035	10,838	8,971
Investment Management (IM)	**552**	**192**	639	275	775	354
Other	**32,842**	**18,482**	44,740	17,233	51,268	25,616
Japan Closed Block VA	**18,651**	**17,415**	25,518	24,079	26,993	26,006
Assets and liabilities classified as discontinued operations	**630**	**466**	184,451	171,065	183,139	169,770
Total segments	**167,630**	**137,723**	377,298	319,218	381,752	325,270
Eliminations	**–21,872**	**–6,260**	–38,545	–7,105	–46,144	–13,136
Total	**145,758**	**131,463**	338,753	312,113	335,608	312,134

37 INFORMATION ON GEOGRAPHICAL AREAS

NN Group's business lines operate in the following geographical areas: Netherlands, Belgium, Rest of Europe and Asia. The Netherlands is NN Group's country of domicile. Geographical distribution of income is based on the origin of revenue. A geographical area is a distinguishable component of NN Group engaged in providing products and services within a particular economic environment that is subject to risks and returns that are different from those of segment operating in other economic environments. The geographical analyses are based on the location of the office from which the transaction is originated.

Geographical areas

2013	**Netherlands**	**Belgium**	**Rest of Europe**	**Asia**	**Other**	**Eliminations**	**Total**
Total income	**8,140**	**860**	**2,841**	**349**	**36**	**–1,065**	**11,161**
Total assets	**160,552**	**7,843**	**15,178**	**28,089**	**644**	**–66,548**	**145,758**

Geographical areas

2012	Netherlands	Belgium	Rest of Europe	Asia	Other	Eliminations	Total
Total income	8,620	1,099	3,139	1,477	227	–1,545	13,017
Total assets	188,590	8,668	17,103	36,516	188,419	–100,543	338,753

Geographical areas

2011	Nether-lands	Belgium	Rest of Europe	Asia	Other	Elimi-nations	Total
Total income	12,138	1,193	2,989	3,252	247	–3,203	16,616
Total assets	183,471	8,374	16,071	37,830	185,925	–96,063	335,608

38 PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The disclosures below refer to the position as at balance sheet date. Reference is made to Note 55 "Subsequent events" on the Dutch closed defined benefit plan, which represents approximately 95% (based on 2013 plan assets) of the total defined benefit schemes.

Balance sheet

Summary of net defined benefit asset/liability

	Pension benefits		
	2013	2012	2011
Fair value of plan assets	**6,457**	7,542	6,644
Defined benefit obligation	**6,125**	7,538	5,803
Net defined benefit asset/(liability) recognised in the balance sheet (Funded status)	**332**	4	841
Presented as:			
– Other assets	**383**	670	1,472
– Other liabilities	**–51**	–666	–631
Closing balance	**332**	4	841

NN Group maintains defined benefit retirement plans in some countries of operation. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is either at the discretion of management or dependent upon the sufficiency of plan assets.

NN Group provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and post-employment defined benefit early-retirement plans.

Several Dutch subsidiaries of NN Group participate in the Stichting Pensioenfonds ING, in which also (subsidiaries) of ING Bank N.V. participate. NN Group N.V. and ING Bank N.V. are jointly and severally liable for deficits in the Stichting Pensioenfonds ING if the coverage ratio is below certain levels. The pension liability, assets and related expense are allocated to NN Group N.V. and ING Bank N.V.

The most recent actuarial valuations of the plan assets and the defined benefit obligation were carried out at 31 December 2013. The defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Changes in fair value of plan assets

	Fair value of plan assets		
	2013	2012	2011
Opening balance	**7,542**	6,644	5,813
Interest income	**268**	353	306
Remeasurements: Return on plan assets excluding amounts included in interest income	**–274**	580	482
Employer's contribution	**250**	236	243
Participants' contributions	**9**	9	1
Benefits paid	**–218**	–230	–230
Effect of settlement	**–97**		
Changes in the composition of the group and other changes	**–1,017**	–32	–2
Exchange rate differences	**–6**	–18	31
Closing balance	**6,457**	7,542	6,644

Notes to the Consolidated annual accounts of NN Group continued

In 2013, Changes in the composition of the group and other changes includes EUR –1,123 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events". The remainder mainly relates to the transfer of approximately 400 WestlandUtrecht Bank's employees to NN Bank. Reference is made to Note 49 "Companies and businesses acquired and divested".

The actual return on the plan assets amounts to EUR –6 million (2012: EUR 933 million; 2011: EUR 788 million).

No plan assets are expected to be returned to NN Group during 2014.

Changes in defined benefit obligation and other post-employment benefits

	Defined benefit obligation			Other post-employment benefits		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**7,538**	5,803	5,758	**77**	74	69
Current service cost	**122**	102	105	**–7**	7	5
Interest cost	**266**	299	303			
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	**2**					
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	**–112**	1,814	–99			
Benefits paid	**–220**	–232	–250		–4	–4
Past service cost			1			
Changes in the composition of the group and other changes	**–1,354**	–80	–3	**–29**	1	3
Effect of curtailment or settlement	**–100**	–133	–64			
Exchange rate differences	**–17**	–35	52	**–1**	–1	1
Closing balance	**6,125**	7,538	5,803	**40**	77	74

In 2013, Changes in the composition of the group and other changes includes EUR –1,494 million as a result of the transfer of ING U.S. and EUR 45 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events". The remainder mainly relates to the transfer of approximately 400 WestlandUtrecht Bank's employees to NN Bank. Reference is made to Note 49 "Companies and businesses acquired and divested".

2013 – Effect of curtailment

In 2013, "Effect of curtailment or settlement" includes the curtailments of a pension plan in the Netherlands. This plan is closed for new pension rights and is replaced by a defined contribution plan.

2012 – Effect of curtailment – New pension plan for employees in the Netherlands

In 2012, an agreement on a new pension plan for employees in the Netherlands was finalised, following acceptance by both the unions and their members. The new pension plan has taken effect on 1 January 2014. Under the agreement, a new separate pension fund has been created. The new plan qualifies as a defined contribution plan under IFRS-EU and has replaced the existing defined benefit plan in the Netherlands.

The key elements of the new scheme are:

- NN Group contributes a yearly pre-defined premium to the fund. The employee contribution to the new scheme will gradually increase to one-third of the base pension premium;
- The minimum salary level at which pensions are provided will be lowered to EUR 15,000;
- Pension benefit will be based on average wage over period of employment with a 2% annual accrual rate;
- The pension fund, not NN Group, will bear responsibility for funding adequacy; NN Group to pay an additional risk premium;
- Responsibility for inflation indexation will move to the new fund; and
- Standard retirement age will be raised to 67.

At the start of the new defined contribution plan on 1 January 2014, the current defined benefit plan has stopped accruing new pension benefits. Accruals recognised under the defined benefit plan up to that date will remain valid. The change to the new pension plan represents a curtailment under IFRS-EU and has resulted in a release of provisions previously taken by NN Group to cover estimated future liabilities in the existing defined benefit plan that are now no longer required. This release amounted to a one-off gain of EUR 100 million after tax (EUR 133 million before tax). The curtailment was included in Staff expenses in 2012. This curtailment is related to the defined benefit plan in the Netherlands, which represented approximately 75% of the above defined benefit obligation on 31 December 2012.

Notes to the Consolidated annual accounts of NN Group continued

2011 – Effect of curtailment

In 2011, effect of curtailment or settlement related mainly to a curtailment in relation to a change in one of the pension plans in the United States.

Amounts recognised directly in Other comprehensive income (equity) were as follows:

Remeasurement of the net defined benefit asset/liability

	2013	2012	2011
Remeasurement of plan assets	**–274**	580	482
Actuarial gains and losses arising from changes in demographic assumptions	**–2**		
Actuarial gains and losses arising from changes in financial assumptions	**112**	–1,814	99
Changes in the composition of the group and other changes	**170**	2	–14
Taxation	**–48**	322	–137
	–42	–910	430

The cumulative amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –1,388 million (EUR –1,042 million after tax) as at 31 December 2013 (2012: EUR –1,395 million, EUR –1,000 million after tax; 2011: EUR –163 million, EUR –90 million after tax).

Information on plan assets and defined benefit obligation per country

The defined benefit obligation per country and the plan assets per country can be specified as follows:

Plan assets and defined benefit obligation per country

	Plan assets			Defined benefit obligation		
	2013	2012	2011	2013	2012	2011
The Netherlands	**6,436**	6,482	5,679	**6,053**	5,818	4,202
Belgium	**8**	8	7	**15**	16	13
Other countries	**13**	1,052	958	**57**	1,704	1,588
	6,457	7,542	6,644	**6,125**	7,538	5,803

Determination of the net defined benefit asset/liability

The table provides the key assumptions used in the determination of the Net defined benefit asset/liability and the Other post-employment benefits.

Weighted averages of basic actuarial assumptions in annual % as at 31 December

	Net defined benefit asset/liability			Other post-employment benefits		
	2013	2012	2011	2013	2012	2011
Discount rates	**3.70**	3.80	5.30	**2.80**	2.30	4.10
Mortality rates	**0.80**	0.80	1.00	**0.80**	0.80	1.00
Expected rates of salary increases (excluding promotion increases)	**2.00**	2.50	2.50	**2.00**	2.00	2.00
Indexation	**2.00**	1.90	1.80	**2.00**	2.00	2.00

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors and other adjustments reflect country-specific conditions.

The discount rate is the weighted average of the discount rates that are applied in different regions where NN Group has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate.

Notes to the Consolidated annual accounts of NN Group continued

The discount rate is approximately 3.7% on 31 December 2013 (2012: 3.8%). As disclosed in the 2012 Annual Accounts, discussions were ongoing, both in the industry and at the IASB, on the definition of the discount rate for defined benefit pension liabilities and NN Group would reconsider the methodology for setting the discount rate if and when appropriate. The discount rate used by NN Group remains based on AA-rated corporate bonds. During 2013, NN Group further refined its methodology to extrapolate the observable AA-rated corporate bond rates to the full duration of the defined benefit pension liability. The refined methodology and the resulting discount rate are more in line with observed market practices. The impact of the refinement of the extrapolation was an increase in the defined benefit obligation as at 31 December 2013 of approximately EUR 1.0 billion (EUR 0.7 billion after tax); this impact was recognised in Other comprehensive income (equity) in 2013. In 2012, the discount rate changed from 5.3% in 2011 to 3.8% in 2012 resulting in an increase of the defined benefit obligation of approximately EUR 2 billion.

On 31 December 2013, the actuarial assumption for Indexation for inflation is 2.0% (1.9% in 2012). This percentage is mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plan in the Netherlands. The best estimate assumption for future indexation was amended in 2013 to reflect the outcome of the arbitration in respect of the 2013 indexation as disclosed in Note 48 “Legal proceedings”.

Sensitivity analysis of key assumptions

The sensitivity analysis of the most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

The table discloses the financial impact on the defined benefit obligation if the weighted averages of each significant actuarial assumption would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the consumptions may be correlated.

Sensitivity analysis – financial impact of changes in significant actuarial assumptions on the defined benefit obligation

2013	Financial impact of increase	Financial impact of decrease
Discount rates – increase/ decrease of 1%	–280	299
Mortality – increase/ decrease of 1 year	205	–211
Expected rates of salary increases (excluding promotion increases) – increase/ decrease of 0.25%	48	–41
Indexation – increase/ decrease 0.25%	256	–242

Expected cash flows

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels. NN Group’s subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis.

For 2014 the expected contributions to pension plans are EUR 46 million.

The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the plan:

Benefit payments

	Defined benefit obli-gation	Other post-employ-ment benefits
2014	150	2
2015	154	2
2016	162	2
2017	171	2
2018	181	2
Years 2019 – 2023	1,064	12

The average duration of the benefit obligation at the end of the reporting period is 20 years (2012: 20 years). This number can be subdivided into the duration related to:

- active members: 26 years (2012: 27 years);
- inactive members: 23 years (2012: 24 years); and
- retired members: 11 years (2012: 11 years).

The Sensitivity analysis of key assumptions and Expected cash flows presented above does not take into consideration the subsequent event that was announced in February 2014 with regard to the transfer of all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. Reference is made to Note 55 "Subsequent events" for information on this agreement.

Profit and loss account

Pension and other staff-related benefit costs

	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Current service cost	**90**	76	81	**–7**	7	5				**83**	83	86
Past service cost			1							**0**	0	1
Net interest cost	**–26**	–93	–47							**–26**	–93	–47
Effect of curtailment or settlement	**–3**	–133								**–3**	–133	0
Other	**–1**				2	1	**–1**	26	–2	**–2**	28	–1
Defined benefit plans	**60**	–150	35	**–7**	9	6	**–1**	26	–2	**52**	–115	39
Defined contribution plans										**7**	4	
										59	–111	39

Defined contribution plans

Certain group companies sponsor defined contribution pension plans. The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities.

Additional information on the closed defined benefit plan in the Netherlands

The largest defined benefit plan is in the Netherlands (94% of the total defined benefit obligation). The defined benefit plan is administered by a fund (PFI) that is legally separated from NN Group. The board of the pension fund is required by law or by articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees and the employer. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund, including the asset-liability matching strategies of the plan. The plan in the Netherlands typically exposes NN Group to risks such as: investment risk, interest rate risk and longevity risk. The primary financial objective of the plan in the Netherlands is to secure accumulated participant retirement benefits.

Since the plan will be closed for new pension accruals as of 1 January 2014, no premiums will be paid into the plan. However, ING decides annually whether or not to grant a lump sum payment for indexation of the accrued pensions.

When the coverage ratio (assets divided by liabilities) of the plan is lower than 105% at year end, ING is required to pay the plan an additional contribution in order to increase the coverage ratio to 106.7%. When the coverage ratio of the plan is lower than 110% but higher than 105% at year end, ING is required to pay the plan an additional contribution in accordance with a pre-defined formula. When the coverage ratio is higher than 140%, ING receives a premium reduction in future periods.

In February 2014, ING reached an agreement with the various stakeholders to transfer all future funding and indexation obligations under the current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement will make the Dutch ING Pension Fund financially independent.

This agreement will result in the removal of the net pension asset related to the Dutch defined benefit pension plan from the Consolidated balance sheet. Reference is made to Note 55 "Subsequent events" for information on this agreement.

Notes to the Consolidated annual accounts of NN Group continued

Defined benefit plan in the Netherlands – Major categories of plan assets

	Fair value of plan assets								
	Quoted price			Other			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Investment portfolio of the pension fund									
Debt securities (fixed income investments):									
– Governments bonds	**2,985**	2,652	2,174				**2,985**	2,652	2,174
– Corporate bonds	**461**	462	440				**461**	462	440
– Other bonds (developing markets)	**298**	379	283				**298**	379	283
Total fixed income investments	**3,744**	3,493	2,897	**0**	0	0	**3,744**	3,493	2,897
Equity security investments:									
– Equity securities in developed markets	**1,144**	1,066	1,313				**1,144**	1,066	1,313
– Equity securities in developing markets	**334**	370					**334**	370	0
Total equity security investments	**1,478**	1,436	1,313	**0**	0	0	**1,478**	1,436	1,313
Real estate investments:									
– Listed	**55**	66	55				**55**	66	55
– Not listed				**277**	282	269	**277**	282	269
Total real estate investments	**55**	66	55	**277**	282	269	**332**	348	324
Alternative investments:									
– Private equity				**115**	104	81	**115**	104	81
– Hedge funds				**56**	51	88	**56**	51	88
– Commodities					65	94		65	94
Total alternative investments	**0**	0	0	**171**	220	263	**171**	220	263
Other assets and liabilities (accrued interest)				**84**	28	38	**84**	28	38
Derivatives (1)	**181**	442	427				**181**	442	427
Cash and cash equivalents				**145**	47	19	**145**	47	19
Total Assets of the pension fund	**5,458**	5,437	4,692	**677**	577	589	**6,135**	6,014	5,281

(1) Derivatives are presented net.

The table above relates to the defined benefit pension plan in the Netherlands that is closed for new pension rights as of 1 January 2014.

At 31 December 2013 the defined benefit plan in the Netherlands did not hold any investments in ING Group At 31 December 2012 Debt securities included EUR 44 million (0.20% of total plan assets) of investments in ING Group and at 31 December 2011 Debt securities included EUR 14 million (0.20% of total plan assets).

Notes to the Consolidated annual accounts of NN Group continued

39 TAXATION

Changes in deferred tax

	Net liability 2012 (1)	Change through equity	Change through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2013 (1)
Investments	3,105	–1,775	–711	334	–16	937
Real estate investments	347		–22	–42		283
Financial assets and liabilities at fair value through profit or loss	–26			9		–17
Deferred acquisition costs and VOBA	1,351	339	–332	–893	–153	312
Depreciation	–4		–2	1		–5
Insurance provisions	–3,986	692	1,133	821	25	–1,315
Cash flow hedges	1,183	–279		15		919
Pension and post-employment benefits	–222	48	52	240	7	125
Other provisions	38		2	2		42
Receivables	–39		3	9	–3	–30
Loans and advances to customers	16		–3	–12		1
Unused tax losses carried forward	–682		161	–16	2	–535
Other	63	–46	–10	–98	25	–66
	1,144	–1,021	271	370	–113	651
Presented in the balance sheet as:						
– deferred tax liabilities	1,220					702
– deferred tax assets	–76					–51
	1,144					651

(1) + = liabilities, – = assets

In 2013, Changes in the composition of the group and other changes includes EUR 158 million as a result of the transfer of ING U.S. and EUR 551 million as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Notes to the Consolidated annual accounts of NN Group continued

Changes in deferred tax

	Net liability 2011 [1]	Change through equity	Change through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2012 [1]
Investments	1,736	1,978	–79	–480	–50	3,105
Real estate investments	378		–23	–8		347
Financial assets and liabilities at fair value through profit or loss	–20			–5	–1	–26
Deferred acquisition costs and VOBA	2,731	–147	166	–1,301	–98	1,351
Depreciation			–4			–4
Insurance provisions	–3,350	–803	–293	408	52	–3,986
Cash flow hedges	955	235		–7		1,183
Pension and post-employment benefits	18	–320	31	39	10	–222
Other provisions	–161		317	–134	16	38
Receivables	–31		1	–8	–1	–39
Loans and advances to customers	14		–2	3	1	16
Unused tax losses carried forward	–674		–48	36	4	–682
Other	61	9	–135	111	17	63
	1,657	952	–69	–1,346	–50	1,144
Presented in the balance sheet as:						
– deferred tax liabilities	1,843					1,220
– deferred tax assets	–186					–76
	1,657					1,144

[1] + = liabilities, – = assets

In 2012, “Changes in the composition of the group and other changes” related mainly to the classification of the insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 “Assets and liabilities held for sale”.

Changes in deferred tax

	Net liability 2010 [1]	Change through equity	Change through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2011 [1]
Investments	–13	1,267	469	–62	75	1,736
Real estate investments	383		–10	5		378
Financial assets and liabilities at fair value through profit or loss	24		–13	–30	–1	–20
Deferred acquisition costs and VOBA	3,111	–272	–194	–45	131	2,731
Fiscal equalisation reserve	1		–1			0
Depreciation	–2		2			0
Insurance provisions	–1,866	–572	–773	–9	–130	–3,350
Cash flow hedges	485	468			2	955
Pension and post-employment benefits	83	137	31	–218	–15	18
Other provisions	–597		423	3	10	–161
Receivables	–28			–4	1	–31
Loans and advances to customers	11		4		–1	14
Unused tax losses carried forward	–670		20	–15	–9	–674
Other	96		–24	5	–16	61
	1,018	1,028	–66	–370	47	1,657
Presented in the balance sheet as:						
– deferred tax liabilities	1,197					1,843
– deferred tax assets	–179					–186
	1,018					1,657

[1] + = liabilities, – = assets

Notes to the Consolidated annual accounts of NN Group continued

Deferred tax in connection with unused tax losses carried forward			
	2013	2012	2011
Total unused tax losses carried forward	**2,313**	4,753	5,919
Unused tax losses carried forward not recognised as a deferred tax asset	**–165**	–2,231	–3,647
Unused tax losses carried forward recognised as a deferred tax asset	**2,148**	2,522	2,272
Average tax rate	**24.9%**	27.0%	29.7%
Deferred tax asset	**535**	682	674

The following tax losses carried forward and tax credits will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by expiry terms						
	No deferred tax asset recognised			Deferred tax asset recognised		
	2013	2012	2011	**2013**	2012	2011
Within 1 year	**1**	19	11	**11**	15	40
More than 1 year but less than 5 years	**123**	132	229	**9**	166	404
More than 5 years but less than 10 years	**27**	111	507	**1,313**	2,113	1,075
More than 10 years but less than 20 years		1,969	2,885	**295**		192
Unlimited	**14**		15	**520**	228	561
	165	2,231	3,647	**2,148**	2,522	2,272

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

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current year or the preceding year. The aggregate amount for the most significant entities to which this applies is EUR 94 million (2012: EUR 129 million; 2011: EUR 209 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction			
	2013	2012	2011
United States			120
Belgium	**39**	73	70
Spain	**55**	56	19
	94	129	209

Recognition is based on the fact that it is probable that the entity will have taxable profits and /or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

As at 31 December 2013, 31 December 2012 and 31 December 2011, NN Group had no significant temporary differences associated with the parent company's investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Profit and loss account

Taxation on continuing operations by type									
	Netherlands			International			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Current tax	**64**	–99	31	**–21**	111	69	**43**	12	100
Deferred tax	**–168**	–135	–38	**75**	10	–47	**–93**	–125	–85
	–104	–234	–7	**54**	121	22	**–50**	–113	15

Notes to the Consolidated annual accounts of NN Group continued

The 2013 taxation in the Netherlands changed with EUR 130 million to EUR –104 million from EUR –234 million in the previous year mainly caused by higher result before tax compared with 2012. Also, the higher result before tax in 2013 was comprised of lower non-taxable profit items compared with 2012.

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

	2013	2012	2011
Result before tax from continuing operations	**–52**	–245	468
Weighted average statutory tax rate	**45.6%**	–22.1%	23.9%
Weighted average statutory tax amount	**–24**	54	112
Associates exemption	**–89**	–161	–121
Other income not subject to tax	**–31**	–34	–34
Expenses not deductible for tax purposes	**41**	32	46
Impact on deferred tax from change in tax rates	**22**	11	2
Deferred tax benefit from previously unrecognised amounts	**–2**	–6	
Current tax benefit from previously unrecognised amounts		–7	
Write-off/reversal of deferred tax assets	**6**		
Adjustments to prior periods	**27**	–2	10
Effective tax amount	**–50**	–113	15
Effective tax rate	**98.1%**	46,7%	3,2%

The weighted average statutory tax rate in 2013 differs significantly compared with 2012. This is mainly a result of the composition of the result before tax from continuing operations in 2013 and 2012.

The weighted average statutory tax rate in 2012 differs significantly from 2011. This is mainly a result of the composition of the result before tax from continuing operations in 2012 and 2011. In 2012 relatively more profits were taxable in countries with high rates while relatively more losses were incurred in countries with lower tax rates.

The effective tax rate in 2013 was higher (favourable in a tax loss situation) than the weighted average statutory tax rate. This is mainly caused by non-taxable income which is only partly offset by non-deductible expenses, tax rate changes and prior year adjustments.

The effective tax rate in 2012 was higher (favourable in a tax loss situation) than the negative weighted average statutory tax rate. This is mainly caused by non-taxable income which is only partly offset by non-deductible expenses.

The effective tax rate in 2011 was lower than the weighted average statutory tax rate. This was mainly caused by exempt income which is only partly offset by non-deductible expenses.

Adjustment to prior periods in 2013 relates to a true up of the tax position in the Netherlands.

Adjustment to prior periods in 2011 related mainly to final tax assessments.

Comprehensive income

Income tax related to components of other comprehensive income

	2013	2012	2011
Remeasurement of the net defined benefit asset/liability	**–48**	322	–137
Unrealised revaluations property in own use		4	
Unrealised revaluations available-for-sale investments and other	**1,648**	–1,904	–1,148
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**17**	–36	–102
Changes in cash flow hedge reserve	**275**	–236	–467
Transfer to insurance liabilities/DAC	**–879**	911	847
Exchange rate differences and other changes		–82	–1
Total income tax related to components of other comprehensive income	**1,013**	–1,021	–1,008

40 FAIR VALUE OF ASSETS AND LIABILITIES

FINANCIAL ASSETS AND LIABILITIES

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

Fair value of financial assets and liabilities

	Estimated fair value			Balance sheet value		
	2013	2012	2011	**2013**	2012	2011
Financial assets						
Cash and cash equivalents	**7,155**	5,389	11,577	**7,155**	5,389	11,577
Financial assets at fair value through profit or loss:						
– trading assets	**736**	586	534	**736**	586	534
– investments for risk of policyholders	**39,589**	98,765	116,438	**39,589**	98,765	116,438
– non-trading derivatives	**3,126**	5,107	7,285	**3,126**	5,107	7,285
– designated as at fair value through profit or loss	**482**	2,000	2,616	**482**	2,000	2,616
Available-for-sale investments	**61,014**	119,305	133,604	**61,014**	119,305	133,604
Loans and advances to customers	**26,114**	26,873	33,385	**25,319**	25,823	32,928
Other assets [(1)]	**3,180**	6,177	7,819	**3,180**	6,177	7,819
	141,396	264,202	313,258	**140,601**	263,152	312,801
Financial liabilities						
Subordinated loans	**2,928**	2,894	4,098	**2,892**	2,947	4,367
Debt securities in issue		2,082	3,480		1,910	3,436
Other borrowed funds	**4,817**	7,458	7,312	**4,817**	7,442	7,307
Investment contracts for risk of company	**795**	4,624	6,717	**810**	4,561	6,259
Investment contracts for risk of policyholders	**1,588**	8,067	6,939	**1,588**	8,067	6,939
Customer deposits and other funds on deposit	**5,764**			**5,769**		
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	**1,843**	3,258	4,404	**1,843**	3,258	4,404
Other liabilities [(2)]	**2,701**	8,133	10,324	**2,701**	8,133	10,324
	20,436	36,516	43,274	**20,420**	36,318	43,036

(1) Other assets does not include (deferred) tax assets, net defined benefit assets and property development and obtained from foreclosures.
(2) Other liabilities does not include (deferred) tax liabilities, net defined benefit liabilities, insurance provisions, other provisions and other taxation and social security contributions.

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date ("exit price"). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors, especially for inputs that are not readily available in the market (such as credit spreads for own-originated loans and advances to customers). Changes in these assumptions could significantly affect the estimated fair value. Consequently, the fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

Notes to the Consolidated annual accounts of NN Group continued

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

Financial assets
Cash and cash equivalents
Cash and cash equivalents are recorded at their nominal value that approximates its fair value.

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

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

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

Loans and receivables
Reference is made to Loans and advances to customers below.

Loans and advances to customers
For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair value of mortgage loans is estimated by taking into account prepayment behaviour and discounting future cash flows using interest rates currently being offered for similar loans to borrowers with similar credit ratings. The fair value of fixed rate policy loans is estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for calculations purposes. The book values of variable rate policy loans approximate their fair value.

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

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

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

Financial liabilities at fair value through profit or loss
The fair value of securities in the trading portfolio and other liabilities at fair value through profit or loss is based on quoted market prices, where available. For those securities not actively traded, fair value is estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit or loss above.

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

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

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

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

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

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

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

Notes to the Consolidated annual accounts of NN Group continued

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

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

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

2013	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	13	3	720	736
Investments for risk of policyholders	38,228	1,113	248	39,589
Non-trading derivatives	3	3,123		3,126
Financial assets designated as at fair value through profit or loss	450	32		482
Available-for-sale investments	47,916	10,989	2,109	61,014
	86,610	15,260	3,077	104,947
Financial liabilities				
Non-trading derivatives	114	1,729		1,843
Investment contracts (for contracts at fair value)	1,588			1,588
	1,702	1,729	0	3,431

Main changes in fair value hierarchy in 2013
There were no significant transfers between Level 1 and 2.

The decrease in Available-for-sale investments (level 2) and in level 3 financial liabilities reflects the transfer of ING U.S. Reference is made to Note 53 "Other events".

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

2012	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	43	24	519	586
Investments for risk of policyholders	92,632	5,983	150	98,765
Non-trading derivatives	19	5,031	57	5,107
Financial assets designated as at fair value through profit or loss	70	1,037	893	2,000
Available-for-sale investments	59,737	56,671	2,897	119,305
	152,501	68,746	4,516	225,763
Financial liabilities				
Non-trading derivatives	171	1,901	1,186	3,258
Investment contracts (for contracts at fair value)	3,716	4,339	12	8,067
	3,887	6,240	1,198	11,325

Main changes in fair value hierarchy in 2012
There were no significant transfers between Level 1 and 2.

Notes to the Consolidated annual accounts of NN Group continued

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

2011	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	47	84	403	534
Investments for risk of policyholders	111,203	5,094	141	116,438
Non-trading derivatives	1,430	5,690	165	7,285
Financial assets designated as at fair value through profit or loss	43	1,150	1,423	2,616
Available-for-sale investments	71,327	58,804	3,473	133,604
	184,050	70,822	5,605	260,477
Financial liabilities				
Non-trading derivatives	1,017	2,071	1,316	4,404
Investment contracts (for contracts at fair value)	3,279	3,648	12	6,939
	4,296	5,719	1,328	11,343

Main changes in fair value hierarchy in 2011

The classification was impacted in 2011 by a transfer of available-for-sale investments of EUR 2.0 billion from Level 3 to Level 2, relating to mortgage backed securities in the United States. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2011 prices supported by market observable inputs became available and were used in determining the fair value.

There were no significant transfers between Level 1 and 2.

Level 3 Financial assets and liabilities

Financial assets measured at fair value in the balance sheet as at 31 December 2013 of EUR 104.9 billion include an amount of EUR 3.1 billion (3.0%) that is classified as Level 3 (31 December 2012: EUR 4.5 billion (2.0%); 31 December 2011: EUR 5.6 billion (2.1%). Changes in Level 3 are disclosed below in the table “Changes in Level 3 Assets”.

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

Of the total amount of financial assets classified as Level 3 as at 31 December 2013 of EUR 3.1 billion, an amount of EUR 2.4 billion is based on unadjusted quoted prices in inactive markets. This includes for example debt securities and shares in real estate investment funds and private equity investment funds for which the fair value is determined using quoted prices for the securities or quoted prices obtained from the asset managers of the funds. As ING does generally not adjust quoted prices using its own inputs, there is no significant sensitivity to ING’s own unobservable inputs.

The remaining EUR 0.7 billion Level 3 financial assets are private equity investments that are recognised at fair value. Fair value is determined using both market-based and investment-specific inputs. In the absence of an active market, fair values are estimated on the basis of the analysis of the invested companies’ financial position, future prospects and other factors, considering valuations of similar positions and other market information. Given the bespoke nature of the analysis in respect of most significant positions, it is not practical to quote a range of key unobservable inputs or provide a sensitivity analysis on such unobservable inputs.

Notes to the Consolidated annual accounts of NN Group continued

Changes in Level 3 Financial assets

2013	Trading assets	Investment for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Opening balance	519	150	57	893	2,897	4,516
Amounts recognised in the profit and loss account during the year	85	9	20	111	–114	111
Revaluation recognised in equity during the year					–44	–44
Purchase of assets	27	154	15	49	329	574
Sale of assets	–64	–52	–36	–124	–144	–420
Maturity/settlement				–67	–138	–205
Transfers into Level 3	27	2			81	110
Transfers out of Level 3	–20	–9			–64	–93
Changes in the composition of the group and other changes	146	–6	–56	–901	–690	–1,507
Exchange rate differences				39	–4	35
Closing balance	720	248	0	0	2,109	3,077

In 2013, Changes in the composition of the group and other changes includes EUR –1,654 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group's business in Japan. Reference is made to Note 53 "Other events".

Changes in Level 3 Financial assets

2012	Trading assets	Investment for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Opening balance	403	141	165	1,423	3,473	5,605
Amounts recognised in the profit and loss account during the year	43	2	–91	–56	–74	–176
Revaluation recognised in equity during the year					–16	–16
Purchase of assets	6	83	19	123	218	449
Sale of assets	–4	–15	–11	–664	–80	–774
Maturity/settlement					–360	–360
Transfers into Level 3	107	67			199	373
Transfers out of Level 3	–39	–6	–23		–201	–269
Changes in the composition of the group and other changes	3	–116		84	–244	–273
Exchange rate differences		–6	–2	–17	–18	–43
Closing balance	519	150	57	893	2,897	4,516

Notes to the Consolidated annual accounts of NN Group continued

Changes in Level 3 Financial assets

2011	Trading assets	Investment for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Opening balance	464	136	145	1,293	3,506	5,544
Amounts recognised in the profit and loss account during the year	–20		53	38	–117	–46
Revaluation recognised in equity during the year					48	48
Purchase of assets	35	123	41	208	517	924
Sale of assets	–21	–99	–82	–184	–261	–647
Maturity/settlement					–405	–405
Transfers into Level 3		4			729	733
Transfers out of Level 3	–55	–6			–2,045	–2,106
Changes in the composition of the group and other changes				9	1,537	1,546
Exchange rate differences		–17	8	59	–36	14
Closing balance	403	141	165	1,423	3,473	5,605

Changes in the composition of the group and other changes includes the increase of the Level 3 assets in relation to shares in real estate investment funds; this increase includes mainly the reclassification of associates to available-for-sale investments as disclosed in Note 6 “Investments in associates”, as well as the reclassification of equity securities in certain real estate companies into Level 3.

Transfers into Level 3 includes certain bonds which were transferred to Level 3 in 2011 as a result of reduced market liquidity and/or pricing sources that could no longer be classified as market observable.

Changes in Level 3 Financial liabilities

2013	**Non-trading derivatives**	**Investment contracts (for contracts at fair value)**	**Total**
Opening balance	**1,186**	**12**	**1,198**
Amounts recognised in the profit and loss account during the year	**65**		**65**
Issue of liabilities		**7**	**7**
Early repayment of liabilities		**–8**	**–8**
Transfers into Level 3		**2**	**2**
Transfers out of Level 3		**–8**	**–8**
Changes in the composition of the group and other changes	**–1,244**	**–5**	**–1,249**
Exchange rate differences	**–7**		**–7**
Closing balance	**0**	**0**	**0**

In 2013, Changes in the composition of the group and other changes includes EUR –1,250 million as a result of the transfer of ING U.S. and nil as a result of the classification to continuing operations of NN Group’s business in Japan. Reference is made to Note 53 “Other events”.

Notes to the Consolidated annual accounts of NN Group continued

Changes in Level 3 Financial liabilities

2012	Non-trading derivatives	Investment contracts (for contracts at fair value)	Total
Opening balance	1,316	12	1,328
Amounts recognised in the profit and loss account during the year	–54		–54
Issue of liabilities	–1	12	11
Early repayment of liabilities	–34	–6	–40
Transfers out of Level 3	–19	–6	–25
Exchange rate differences	–22		–22
Closing balance	1,186	12	1,198

Changes in Level 3 Financial liabilities

2011	Non-trading derivatives	Investment contracts (for contracts at fair value)	Total
Opening balance	1,142	17	1,159
Amounts recognised in the profit and loss account during the year	128		128
Issue of liabilities		7	7
Early repayment of liabilities	–2	–3	–5
Transfers out of Level 3		–9	–9
Changes in the composition of the group and other changes	–16		–16
Exchange rate differences	64		64
Closing balance	1,316	12	1,328

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

2013	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Financial assets			
Trading assets	**97**	**–12**	**85**
Investments for risk of policyholders	**11**	**–2**	**9**
Non-trading derivatives	**–9**	**29**	**20**
Financial assets designated as at fair value through profit or loss	**23**	**88**	**111**
Available-for-sale investments	**–116**	**2**	**–114**
	6	**105**	**111**
Financial liabilities			
Non-trading derivatives	**65**		**65**
	65	**0**	**65**

Notes to the Consolidated annual accounts of NN Group continued

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

2012	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	42	1	43
Investments for risk of policyholders	3	–1	2
Non-trading derivatives	–97	6	–91
Financial assets designated as at fair value through profit or loss	–14	–42	–56
Available-for-sale investments	–82	8	–74
	–148	–28	–176
Financial liabilities			
Non-trading derivatives	–58	4	–54
	–58	4	–54

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

2011	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	–21	1	–20
Non-trading derivatives	50	3	53
Financial assets designated as at fair value through profit or loss	38		38
Available-for-sale investments	–35	–82	–117
	32	–78	–46
Financial liabilities			
Non-trading derivatives	139	–11	128
	139	–11	128

Recognition of unrealised gains and losses in Level 3

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

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

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

Fair value of the financial instruments carried at amortised cost

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

Notes to the Consolidated annual accounts of NN Group continued

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

2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	7,155			7,155
Loans and advances to customers	9	1,893	24,212	26,114
	7,164	1,893	24,212	33,269
Financial liabilities				
Subordinated loans			2,928	2,928
Other borrowed funds	456	2,632	1,729	4,817
Investment contracts for risk of company	20		775	795
Investment contracts for risk of policyholders	1,588			1,588
Customer deposits and other funds on deposit		5,764		5,764
	2,064	8,396	5,432	15,892

Asset backed security portfolio

Fair value hierarchy of certain ABS bonds

2013	Level 1	Level 2	Level 3	Total
US Alt-A RMBS		5		5
CDO/CLOs			39	39
CMBS			11	11
Total certain ABS	0	5	50	55

Fair value hierarchy of certain ABS bonds

2012	Level 1	Level 2	Level 3	Total
US Subprime RMBS		733		733
US Alt-A RMBS		284		284
CDO/CLOs			129	129
CMBS		3,750		3,750
Total certain ABS	0	4,767	129	4,896

Fair value hierarchy of certain ABS bonds

2011	Level 1	Level 2	Level 3	Total
US Subprime RMBS		752		752
US Alt-A RMBS		293	2	295
CDO/CLOs		30	153	183
CMBS		4,139	5	4,144
Total certain ABS	0	5,214	160	5,374

Greece, Italy, Ireland, Portugal and Spain

Of the Government and Unsecured Financial institutions' bond exposure in Greece, Italy, Ireland, Portugal and Spain as disclosed in Note 4 "Available-for-sale investments", EUR 2.7 billion (2012: EUR 2.6 billion; 2011: EUR 2.6 billion) is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provides the fair value hierarchy for the Greek, Italian, Irish, Portuguese and Spanish Government and Unsecured Financial institutions' bond exposure measured at fair value.

Notes to the Consolidated annual accounts of NN Group continued

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2013	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale	105			105
Italy				
Government bonds available-for-sale	1,391			1,391
Financial institutions available-for-sale	55			55
Ireland				
Government bonds available-for-sale	59			59
Portugal				
Government bonds available-for-sale	4			4
Financial institutions available-for-sale		27		27
Spain				
Government bonds available-for-sale	1,012			1,012
Financial institutions available-for-sale	22	57		79
Total	2,648	84	0	2,732

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2012	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale	76			76
Italy				
Government bonds available-for-sale	1,347	30		1,377
Financial institutions available-for-sale	51			51
Ireland				
Government bonds available-for-sale	55			55
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	7			7
Financial institutions available-for-sale	18	22		40
Spain				
Government bonds available–for-sale	872			872
Financial institutions available-for-sale	96			96
Total	2,537	52	0	2,589

Classification of bonds in Level 2 is mainly a result of low trading liquidity in the relevant markets.

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2011	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale		104		104
Italy				
Government bonds available-for-sale	1,207			1,207
Financial institutions available-for-sale	83			83
Ireland				
Government bonds available-for-sale	43			43
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	95			95
Financial institutions available-for-sale	30	17		47
Spain				
Government bonds available–for-sale	866			866
Financial institutions available-for-sale	163			163
Total	2,502	121	0	2,623

Notes to the Consolidated annual accounts of NN Group continued

NON-FINANCIAL ASSETS AND LIABILITIES

In addition to financial assets and liabilities, the following table presents the estimated fair value of NN Group's non-financial assets and liabilities that are measured at fair value in the balance sheet. Reference is made to Note 1 "Accounting policies" in the sections "Real estate investments" and "Property in own use" for the methods and assumptions used by NN Group to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

2013	Esti-mated fair value	Balance sheet value
Real estate investments	764	764
Property in own use	100	100
	864	864

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

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

2013	Level 1	Level 2	Level 3	Total
Real estate investments			764	764
Property in own use			100	100
	0	0	864	864

Level 3 Non-financial assets

Changes in Level 3 non-financial assets

2013	Real estate invest-ments	Property in own use
Opening balance	798	114
Amounts recognised in the profit and loss account during the year	–5	–14
Purchase of assets	200	
Sale of assets	–229	
Closing balance	764	100

Amounts recognised in the p&l account during the year (Level 3) non-financial assets

2013	Held at balance sheet date	Derecog-nised during the year	Total
Real estate investments	–25	20	–5
Property in own use	–14		–14
	–39	20	–19

41 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the "Risk management" section, NN Group uses derivatives (principally interest rate swaps and cross currency interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The impact of NN Group's hedging activities is to optimise the overall cost to NN Group of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and reported in accordance with the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: fair value hedge accounting, cash flow hedge accounting and net investment hedge accounting. These are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in Note 1 "Accounting policies" in the section on "Principles of valuation and determination of results".

Notes to the Consolidated annual accounts of NN Group continued

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

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

Fair value hedge accounting
NN Group's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

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

For the year ended 31 December 2013, NN Group recognised EUR –6 million (2012: EUR 6 million; 2011: EUR –3 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 3 million (2012: EUR –6 million; 2011: EUR 3 million) fair value changes recognised on hedged items. This resulted in EUR –3 million (2012: nil; 2011: nil) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2013, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR 1 million (2012: EUR –203 million; 2011: EUR –264 million), presented in the balance sheet as EUR 1 million (2012: nil; 2011: nil) positive fair value under assets and nil (2012: EUR 203 million; 2011: EUR 264 million) negative fair value under liabilities.

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

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

For the year ended 31 December 2013, NN Group recognised EUR –832 million (2012 EUR 665 million; 2011: EUR 1,316 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2013 is EUR 3,644 million (2012: EUR 4,736 million; 2011: EUR 3,835 million) gross and EUR 2,726 million (2012: EUR 3,548 million; 2011: EUR 2,883 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 44 years with the largest concentrations in the range of 1 year to 8 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 50 million income (2012: EUR 13 million loss; 2011: EUR 16 million loss) which was recognised in the profit and loss account.

As at 31 December 2013, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 1,218 million (2012: EUR 2,195 million; 2011: EUR 2,270 million), presented in the balance sheet as EUR 1,433 million (2012: EUR 2,450 million; 2011: EUR 2,572 million) positive fair value under assets and EUR 215 million (2012: EUR 255 million; 2011: EUR 302 million) negative fair value under liabilities.

As at 31 December 2013 and 31 December 2012, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and Interest expense on non-trading derivatives is EUR 280 million (2012: EUR 300 million; 2011: EUR 329 million) and EUR 35 million (2012: EUR 82 million; 2011: EUR 114 million), respectively, relating to derivatives used in cash flow hedges.

Notes to the Consolidated annual accounts of NN Group continued

Hedges of net investments in foreign operations
NN Group's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholder's equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

As at 31 December 2013, the fair value of outstanding derivatives designated under net investment hedge accounting was EUR –8 million (2012: EUR 2 million; 2011: EUR –7 million), presented in the balance sheet as nil (2012: EUR 2 million; 2011: EUR 5 million) positive fair value under assets and EUR 8 million (2012: nil; 2011: EUR 12 million) negative fair value under liabilities.

As at 31 December 2013, the fair value of outstanding non-derivatives designated under net investment hedge accounting was nil (2012: EUR –1,416 million; 2011: EUR –1,515 million), presented in the balance sheet as negative fair value under liabilities. Non-derivatives designated as hedging instruments consist mainly of loan agreements.

There was no accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2013, 2012 and 2011 on derivatives and non-derivatives designated under net investment hedge accounting.

42 ASSETS BY CONTRACTUAL MATURITY
Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity

2013	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	7,155						7,155
Financial assets at fair value through profit or loss:							
– trading assets						736	736
– investments for risk of policyholders [2]						39,589	39,589
– non-trading derivatives	44	12	24	1,019	2,032	–5	3,126
– designated as at fair value through profit or loss	401		42	13		26	482
Available-for-sale investments	353	422	1,834	10,383	42,402	5,620	61,014
Loans and advances to customers	417	524	1,774	4,651	17,746	207	25,319
Reinsurance contracts	10	24	30	10	79	99	252
Intangible assets	3	7	14	81	4	283	392
Deferred acquisition costs	20	17	91	198	1,027		1,353
Assets held for sale [3]	58		572				630
Other assets	1,234	554	988	385	573	20	3,754
Remaining assets (for which maturities are not applicable) [4]						1,956	1,956
Total assets	9,695	1,560	5,369	16,740	63,863	48,531	145,758

(1) Includes assets on demand.
(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.
(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 "Assets and liabilities held for sale". For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in "maturity not applicable".
(4) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the Consolidated annual accounts of NN Group continued

Assets by contractual maturity

2012	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	5,389						5,389
Financial assets at fair value through profit or loss:							
– trading assets				4		582	586
– investments for risk of policyholders [2]						98,765	98,765
– non-trading derivatives	129	120	214	1,430	3,214		5,107
– designated as at fair value through profit or loss		13	34	242	605	1,106	2,000
Available-for-sale investments	682	1,081	8,137	20,931	72,206	16,268	119,305
Loans and advances to customers	439	157	1,633	2,370	19,282	1,942	25,823
Reinsurance contracts	19	49	281	1,277	1,992	1,672	5,290
Intangible assets	2	5	37	159	44	771	1,018
Deferred acquisition costs	19	18	77	158	316	3,961	4,549
Assets held for sale [3]		5,553				56,138	61,691
Other assets	1,991	577	1,186	2,037	612	332	6,735
Remaining assets (for which maturities are not applicable) [4]						2,495	2,495
Total assets	8,670	7,573	11,599	28,608	98,271	184,032	339,753

(1) Includes assets on demand.
(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.
(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 “Assets and liabilities held for sale”. For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in “maturity not applicable”.
(4) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2011	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	11,577						11,577
Financial assets at fair value through profit or loss:							
– trading assets			6	24	19	485	534
– investments for risk of policyholders [2]						116,438	116,438
– non-trading derivatives	282	304	755	1,600	4,344		7,285
– designated as at fair value through profit or loss			25	191	660	1,740	2,616
Available-for-sale investments	464	1,066	6,580	26,498	79,434	19,562	133,604
Loans and advances to customers	1,166	2,114	2,035	3,008	20,458	4,147	32,928
Reinsurance contracts	17	39	234	1,026	2,656	1,898	5,870
Intangible assets	4	8	81	170	166	1,543	1,972
Deferred acquisition costs	19	22	98	698	3,630	5,737	10,204
Other assets	2,316	855	2,169	2,158	1,417	495	9,410
Remaining assets (for which maturities are not applicable) [3]						2,949	2,949
Total assets	15,845	4,408	11,983	35,373	112,784	154,994	335,387

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

Notes to the Consolidated annual accounts of NN Group continued

43 LIABILITIES BY MATURITY

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

Non-financial liabilities are included based on a breakdown of the balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in the "Risk management" section for a description on how liquidity risk is managed.

Liabilities by maturity

2013	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment [1]	Total
Liabilities								
Subordinated loans	962	813	450	667				2,892
Other borrowed funds	2,731	1,001	11	155	919			4,817
Customer deposits and other funds on deposit			25	777	1,110	3,857		5,769
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	293	69	–26	–41	–2,290		3,838	1,843
Financial liabilities	3,986	1,883	460	1,558	–261	3,857	3,838	15,321
Insurance and investment contracts	806	1,115	5,486	17,586	47,038	39,520		111,551
Liabilities held for sale [2]	14		452					466
Other liabilities	1,419	–1	918	318	1,107	364		4,125
Non-financial liabilities	2,239	1,114	6,856	17,904	48,145	39,884	0	116,142
Total liabilities	6,225	2,997	7,316	19,462	47,884	43,741	3,838	131,463
Coupon interest due on financial liabilities	–1		–1	–4	–3			–9

[1] This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

[2] Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 "Assets and liabilities held for sale". For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in "maturity not applicable".

Notes to the Consolidated annual accounts of NN Group continued

Liabilities by maturity

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment [1]	Total
Liabilities								
Subordinated loans					476	2,438	33	2,947
Debt securities in issue	1		799		1,116		–6	1,910
Other borrowed funds	3,476	32	1,539	969	1,426			7,442
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	292	96	313	1,289	751	1,145	–628	3,258
Financial liabilities	3,769	128	2,651	2,258	3,769	3,583	–601	15,557
Insurance and investment contracts	1,646	1,951	9,156	36,050	79,065	102,082		229,950
Liabilities held for sale [2]		4,656				50,999		55,655
Other liabilities	1,773	383	2,777	3,352	2,171	495		10,951
Non-financial liabilities	3,419	6,990	11,933	39,402	81,236	153,576	0	296,790
Total liabilities	7,188	7,118	14,584	41,660	85,005	157,159	–601	312,113
Coupon interest due on financial liabilities	10	21	42	279	578			930

[1] This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

[2] Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 “Assets and liabilities held for sale”. For these assets and liabilities, the underlying contractual maturities are no longer relevant to NN Group. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in “maturity not applicable”.

Liabilities by maturity

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment [1]	Total
Liabilities								
Subordinated loans					1,726	2,617	24	4,367
Debt securities in issue	1		847	2,107	479		2	3,436
Other borrowed funds	5,621	93	24	168	1,401			7,307
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	123	216	494	1,431	2,146	1,131	–1,137	4,404
Financial liabilities	5,745	309	1,365	3,706	5,752	3,748	–1,111	19,514
Insurance and investment contracts	2,787	1,788	10,346	39,034	105,512	119,366		278,833
Other liabilities	1,906	475	4,093	3,891	2,016	1,122		13,503
Non-financial liabilities	4,693	2,263	14,439	42,925	107,528	120,488	0	292,336
Total liabilities	10,438	2,572	15,804	46,631	113,280	124,236	–1,111	311,850
Coupon interest due on financial liabilities		35	123	286	492			936

[1] This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

44 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable relate primarily to investments of EUR 54 million (2012: EUR 238 million; 2011: EUR 251 million) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 45 “Transfer of financial assets”.

Notes to the Consolidated annual accounts of NN Group continued

45 TRANSFER OF FINANCIAL ASSETS

The majority of NN Group's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending.

Transfer of financial assets not qualifying for derecognition

	Securities lending	
2013	**Equity**	**Debt**
Transferred assets at carrying amount		
Available-for-sale investments		**1,855**

Transfer of financial assets not qualifying for derecognition

	Securities lending	
2012	Equity	Debt
Transferred assets at carrying amount		
Available-for-sale investments		2,590

Transfer of financial assets not qualifying for derecognition

	Securities lending	
2011	Equity	Debt
Transferred assets at carrying amount		
Available-for-sale investments		8,745

In addition NN Group has entered into a sale and repurchase transaction of EUR 380 million.

The table above does not include assets transferred to consolidated securitisation entities, as the related assets remain recognised in the Consolidated balance sheet. Reference is made to Note 51 "Structured entities".

46 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

					Related amounts not offset in the balance sheet		
2013		**Gross amounts of recog-nised financial assets**	**Gross amounts of recog-nised financial liabilities offset in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**	**Financial instru-ments**	**Cash and financial instru-ments received as collateral**	**Net amount**
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Financial assets at fair value through profit or loss							
Non-trading derivatives	Derivatives	**1,971**		**1,971**	**–576**	**–1,377**	**18**
		1,971		**1,971**	**–576**	**–1,377**	**18**
Investments							
Available-for-sale	Other	**114**		**114**		**–113**	**1**
		114		**114**		**–113**	**1**
Total financial assets		**2,085**		**2,085**	**–576**	**–1,490**	**19**

Notes to the Consolidated annual accounts of NN Group continued

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

2013		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet: Financial instruments	Related amounts not offset in the balance sheet: Cash and financial instruments pledged as collateral	Net amount
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Financial liabilities at fair value through profit or loss							
Non-trading derivatives	Derivatives	721		721	–576	–133	12
		721	0	721	–576	–133	12
Other items where offsetting is applied in the balance sheet		1,030		1,030		–1,030	0
Total financial liabilities		1,751	0	1,751	–576	–1,163	12

47 CONTINGENT LIABILITIES AND COMMITMENTS

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

Contingent liabilities and commitments

2013	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	51	134	135	253	81	29	683
Guarantees	3						3
	54	134	135	253	81	29	686

Contingent liabilities and commitments

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	556	229	134	188	68	69	1,244
Guarantees	221			6	10	1	238
	777	229	134	194	78	70	1,482

Contingent liabilities and commitments

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	1,148	158	174	227	3	115	1,825
Guarantees	250			9	10	5	274
	1,398	158	174	236	13	120	2,099

NN Group has issued certain guarantees, which are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, NN Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

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

Notes to the Consolidated annual accounts of NN Group continued

Future rental commitments for operating lease contracts	
	2013
2014	3
2015	3
2016	3
2017	3
2018	3
years after 2018	11

48 LEGAL PROCEEDINGS

NN Group companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, broker-dealers, underwriters, issuers of securities, and investors and their position as employers and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the Company's management is of the opinion that some of the proceedings set out below may have or have in the recent past had a significant effect on the financial position, profitability or reputation of the Company.

Because of the geographic spread of its business, NN Group may be subject to tax audits in numerous jurisdictions at any point in time. Although NN Group believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits may result in liabilities which are different from the amounts recognised.

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

In November 2013, the so-called "Vereniging Woekerpolis.nl", an association representing the interests of policyholders, initiated a so-called "collective action", requesting the District Court in Rotterdam to declare that NN Group's Dutch insurance subsidiaries sold products in the market, which are defective in various respects, (e.g. on transparency regarding cost charges and other product characteristics, and included risks for which the insurer failed to warn, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to difference in geometric versus arithmetic returns). NN Group's Dutch insurance subsidiaries have rejected these claims and will defend themselves in these proceedings.

Apart from the afore mentioned "collective action", several other claim organisations and initiatives were established on behalf of policyholders, such as the organisation Wakkerpolis. This organisation primarily concentrates on the recovery of initial costs for policyholders, based on an interim ruling of the Dispute Committee of the Financial Services Complaints Board (KiFiD) issued on 13 May 2013 in an individual case. In this case, the KiFiD concluded that there is no contractual basis for charging initial costs (which are costs charged to the policy during a limited period of time). Apart from the initial costs, it can be derived from the interim ruling – in accordance with past rulings of the KiFiD – that an insurer is obliged to warn against the leverage and capital consumption effect (which is the effect caused by the dependency of life insurance premium on the value of the policy; the lower the value of the policy – the higher the life insurance premium). NN Group believes that this interim ruling is incorrect on several legal grounds.

Notes to the Consolidated annual accounts of NN Group continued

In proceedings pending before the District Court in Rotterdam, the Court has upon the request of the parties, including NN Group, submitted prejudicial questions to the European Court of Justice to obtain clarity on principal legal questions with respect to cost transparency related to unit-linked policies. The main prejudicial question is whether European law allows for the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. Although the European Court does not decide on the applicable standards in specific cases, NN Group believes the ruling of the Court of Justice can give clarification on this question of legal principle which is subject of other legal proceedings in the Netherlands. It is expected that the European Court of Justice will render its judgment at the earliest in 2014.

NN Group's Dutch insurance subsidiaries have issued, sold or advised on approximately one million individual unit-linked policies. There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of these legal challenges will succeed. The financial consequences of any of the aforementioned factors or a combination thereof can be substantial for the Dutch insurance business of NN Group and may affect NN Group, both financially and reputationally. However, these consequences cannot be reliably estimated or quantified at this point.

In January 2010, ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. In its appeal, ING contested the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general. On 2 March 2012, the General Court handed down its judgment in relation to ING Group's appeal and annulled part of the EC's state aid decision. Subsequently, the EC filed an appeal against the General Court's judgment before the Court of Justice of the European Union. In parallel, the EC adopted a decision on 11 May 2012 that re-approved the state aid granted to ING Group as compatible with the internal market on the basis of ING Group's 2009 Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the 2009 Restructuring Plan.

On 24 July 2012, ING announced that the Dutch State and ING were in dialogue with the European Commission on an amended and updated Restructuring Plan to be submitted to the European Commission. However, in order to safeguard its legal rights, ING filed an appeal with the General Court of the European Union against the European Commission's decision of 11 May 2012, which re-approved ING's Restructuring Plan that ING submitted in 2009.

On November 19, 2012, ING Group and the EC announced that the EC had approved amendments to the 2009 Restructuring Plan (the "2012 Amended Restructuring Plan"). With the approval, the Commission has closed its Investigation as announced on 11 May 2012 and ING has withdrawn its appeal at the General Court of the European Union that it filed in July 2012. For principal legal reasons the European Commission will continue with its appeal against the General Court ruling of March 2012. However, the outcome of this Appeal will not affect the EC approval of the 2012 Amended Restructuring plan. It is expected that this judgment will be rendered in April 2014.

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING's decision not to provide funding for indexing pensions insured with the Dutch ING Pension Fund (Stichting Pensioenfonds ING) in 2009, 2010 and 2011. This claim was rejected by the district court of Amsterdam on 9 November 2012. An appeal was lodged against this court decision. In July 2011, also the Interest Group ING General Managers' Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING's decision not to provide funding for indexing Dutch General Managers' pensions directly insured with Nationale-Nederlanden in 2010 and 2011. This claim was rejected by the district court of Amsterdam on 22 October 2012. An appeal was lodged against this court decision. It is not feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome of these proceedings may result in liabilities and provisions for such liabilities which are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

In April 2013, the ING Pension Fund started arbitration proceedings to adjudicate a dispute with ING concerning the adjusted mortality tables used in the calculation of premiums and provisions. In 2013 ING decided to lower its contributions by 1.7% as a result of ING not accepting the adjustments made by the ING Pension Fund resulting from the mortality tables used. In February 2014 the ING Pension Fund and ING agreed that the ING Pension Fund will remain using a surcharge of 1.7% and the ING Pension Fund and ING will share the costs of the 1.7% surcharge over 2013. The payment of 50% of the surcharge 2013 by ING is included in the payment by ING of the one-time lump sum to the ING Pension Fund, which was closed for the accrual of new pension benefits as of 1 January 2014, of EUR 379 million to release ING from future financial obligations. More information is provided in Note 53 "Other events".

Notes to the Consolidated annual accounts of NN Group continued

In July 2013, the ING Pension Fund started arbitration proceedings against ING's decision not to provide funding (for a total amount of EUR 197.5 million) for indexing pensions insured with the ING Pension Fund as of 1 January 2013. During the arbitration proceedings the ING Pension Fund added a claim in the amount of EUR 38.8 million for funding the indexation as of 1 August 2013. On 20 December 2013 the arbitrators ruled in favour of the ING Pension Fund and concluded that ING will have to provide full funding for both the indexation as of 1 January 2013 and the indexation as of 1 August 2013. The outcome of the arbitration is reflected in the 2013 Annual Accounts.

Following a recent broad industry review by the Dutch regulator DNB, Nationale-Nederlanden Schadeverzekering Maatschappij N.V. was instructed to strengthen its policies and procedures in respect of sanctions-related customer screening and related compliance matters. Nationale-Nederlanden Schadeverzekering Maatschappij N.V. is currently in the process of implementing DNB's recommendations.

49 COMPANIES AND BUSINESSES ACQUIRED AND DIVESTED

Acquisitions effective in 2013

WestlandUtrecht Bank

The partial transfer of WestlandUtrecht Bank's assets and liabilities, in which the commercial operations of WestlandUtrecht Bank have been combined with the retail banking activities of Nationale-Nederlanden, was announced in November 2012. On 1 July 2013 EUR 3.8 billion of WestlandUtrecht Bank's Dutch mortgage portfolio, EUR 0.1 billion of consumer lending and EUR 3.7 billion of Dutch savings portfolio were transferred to NN Bank. In addition approximately 400 of WestlandUtrecht Bank's employees were transferred to NN Bank. All assets and liabilities were transferred at the existing carrying value as included in ING Bank's balance sheet. This transaction was completed on 1 July 2013.

In addition, during the second half of 2013 a further amount of EUR 4.2 billion of Dutch mortgages were transferred from WestlandUtrecht Bank to NN Group. The transfers have been made at an arm's length price.

Divestments announced in 2014

The investment management business in Taiwan

On 10 January 2014, an agreement was reached to sell ING Investment Management (IM) Taiwan, the Taiwanese asset management business, to Japan-based Nomura Asset Management Co Ltd. in partnership with a group of investors. The transaction is not expected to have a significant impact on Net result. The transaction is subject to regulatory approval and expected to close in the second quarter of 2014.

Divestments in 2013

ING U.S.

In 2013, the remaining interest in its subsidiary ING U.S., Inc. ("ING U.S.") was transferred to ING Groep N.V. by way of dividend in kind. Reference is made to Note 53 "Other events" for more details on the transaction.

The insurance and investment management businesses in Asia

In 2012, the insurance and investment management businesses in Asia and the (internally) reinsured Japan SPVA business in corporate reinsurance were classified as held for sale and discontinued operations. After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that a standalone divestment of ING Life Japan, including its Corporate Owned Life Insurance (COLI) and Closed Block VA businesses, is not feasible in a manner that would appropriately meet the demands of regulators and other stakeholders in ING Group and ING Life Japan. Therefore, ING Life Japan will be included with NN Group's European insurance and investment management businesses in the base case IPO of NN Group in 2014. Various individual divestment transactions have been agreed. The specifics of these transactions are included below. The Asian insurance and investment management businesses and the (internally) reinsured Japan SPVA businesses in Corporate Reinsurance were previously included respectively in the segments Insurance Asia/Pacific, Investment Management and Other before they were classified as discontinued operations. Reference is made to Note 11 "Assets and liabilities held for sale" and Note 33 "Discontinued operations".

Joint venture China Merchants Fund

In October 2012, an agreement to sell the 33.3% interest in China Merchants Fund, an investment management joint venture, to the joint venture partners China Merchants Bank Co., Ltd., and China Merchants Securities Co., Ltd, was reached. A total cash consideration of EUR 98 million was received. The transaction realised a net gain of EUR 59 million. The transaction closed on 3 December 2013.

The insurance businesses in Hong Kong, Macau, Thailand

In October 2012, an agreement to sell the life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and the life insurance operation in Thailand to Pacific Century Group for a combined consideration of EUR 1.6 billion (USD 2.1 billion) in cash, was reached. A net gain of EUR 945 million is recognised in 2013. The transaction closed on 28 February 2013.

The investment management business in Thailand
In November 2012, an agreement to sell the investment management business in Thailand to UOB Asset Management Ltd, was reached. A total cash consideration of EUR 10 million for the investment management business in Thailand was received. The transaction closed on 3 May 2013.

The investment management business in Malaysia
In December 2012, an agreement to sell the 70% interest in ING Funds Berhad (IFB), the investment management business in Malaysia, to Kenanga Investors Berhad (Kenanga Investors), a wholly-owned subsidiary of K & N Kenanga Holdings Berhad (Kenanga), was reached. The transaction closed on 19 April 2013.

Joint venture ING Vysya Life
In January 2013, it was agreed to sell the full interest in ING Vysya Life Insurance Company Ltd. to the joint venture partner Exide Industries Ltd. The transaction resulted in a net loss of EUR 15 million for which goodwill was reduced in 2012. The transaction closed on 22 March 2013.

Joint venture KB Life
In April 2013, the 49% interest in Korean insurance venture KB Life Insurance Company Ltd. (KB Life) was agreed to be sold to joint venture partner KB Financial Group Inc. A total cash consideration of EUR 115 million (KRW 166.5 billion) was received for its 49% interest in KB Life. The transaction closed 20 June 2013.

Joint venture ING-BOB Life
In July 2013, the 50% interest in the Chinese insurance joint venture ING-BOB Life Insurance Company was agreed to be sold to BNP Paribas Cardif, the insurance arm of BNP Paribas. The transaction is not expected to have a significant impact on Net result. This transaction is subject to regulatory approvals and is expected to close in the first half of 2014.

The investment management business in South Korea
In July 2013, the investment management business in South Korea was agreed to be sold to Macquarie Group. The transaction did not have a significant impact on Net results. The transaction closed on 2 December 2013.

ING Life Korea
In August 2013, ING Life Korea, the wholly-owned life insurance business in South Korea, was agreed to be sold to MBK Partners for a total consideration of EUR 1.24 billion (KRW 1.84 trillion). Under the terms of the agreement, NN Group will continue to hold an indirect interest of approximately 10% in ING Life Korea for an amount of EUR 80 million (KRW 120 billion). ING has also reached a licensing agreement that will allow ING Life Korea to continue to operate under the ING brand for a maximum period of five years. In addition, over the course of one year, NN Group will continue to provide technical support and advice to ING Life Korea. The transaction resulted in an after tax loss of approximately EUR 1.0 billion. This transaction closed on 24 December 2013.

In addition to the above mentioned transactions, the interest in the joint venture ING Financial Services Private Limited was sold to Hathaway investments.

ING Hipotecaria
In June 2013, ING Hipotecaria, S.A. de C.V. the mortgage business in Mexico, was agreed to be sold to Banco Santander (México) S.A. This transaction resulted in a net loss of EUR 64 million which is recognised in 2013. The transaction closed on 29 November 2013.

Notes to the Consolidated annual accounts of NN Group continued

Most significant companies divested in 2013

	ING U.S. [2]	The insurance businesses in Hong Kong, Macau and Thailand	ING Life Korea	Total
Sales proceeds				
Cash proceeds [1]		1,630	1,235	2,865
Non-cash proceeds				
Sales proceeds	0	1,630	1,235	2,865
Assets				
Cash and cash equivalents	1,367	103	171	1,641
Financial assets at fair value through profit and loss	78,101	763	4,292	83,156
Available-for-sale investments	55,501	3,503	9,874	68,878
Loans and advances to customers	8,270	163	1,523	9,956
Reinsurance contracts	4,482	70	17	4,569
Real estate investments	6			6
Intangible assets	894	66	32	992
Deferred acquisition costs	4,416	601	1,848	6,865
Miscellaneous other assets	2,687	162	396	3,245
Liabilities				
Debt securities in issue	2,600			2,600
Other borrowed funds	78			78
Insurance and investment contracts	136,541	4,329	15,034	155,904
Financial liabilities at fair value through profit and loss	2,290	1	7	2,298
Miscellaneous other liabilities	4,451	230	729	5,410
Net assets	9,764	871	2,383	13,018
% divested	71	100	100	
Net assets divested	6,826	871	2,383	10,080
Gain/loss on divestment [3]	nil	944	–989	–45

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually insignificant disposals in addition to the cash flow presented.
[2] The remaining interest in ING U.S. was transferred to ING Groep N.V. by way of dividend in kind.
[3] The gain/loss on divestments comprises the sales proceeds, the net assets divested, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2012
There were no significant acquisitions in 2012.

Divestments effective in 2012
Insurance businesses in Malaysia
In October 2012, An agreement with AIA Company Ltd. to sell the insurance operations in Malaysia, which included the life insurance business, the market-leading employee benefits business and the 60% interest in ING Public Takaful Ehsan Berhad, was reached. A total cash consideration of EUR 1.3 billion was received. In December 2012, the sale was completed with a net transaction gain of EUR 745 million after tax.

Notes to the Consolidated annual accounts of NN Group continued

Most significant companies divested in 2012	Insurance business in Malaysia
Sales proceeds	
Cash proceeds	1,332
Sales proceeds	1,332
Assets	
Cash and cash equivalents	86
Investments	3,293
Loans and advances to customers	539
Financial assets at fair value through profit or loss	224
Real estate investments	87
Miscellaneous other assets	899
Liabilities	
Insurance and investment contracts	3,964
Miscellaneous other liabilities	512
Net assets	652
% divested	100%
Net assets divested	652
Gain on divestment (1)	745

(1) The gain on divestments comprises the sales proceeds, the net assets divested, the expenses directly related to the divestment and the realisation of unrealised reserves.

Acquisitions effective in 2011

There were no significant acquisitions in 2011.

Divestments effective in 2011

Pacific Antai Life Insurance Company Ltd.

In June 2011, the sale of the entire interest in China's Pacific Antai Life Insurance Company Ltd. (PALIC) to China Construction Bank for a consideration of EUR 82 million, and a net profit of EUR 28 million, was completed. The interest in PALIC was previously included in the former segment Insurance Asia/Pacific. The deal had been announced in 2009 and was presented as held for sale since 2009 until the sale was completed.

ING Investment Management Australia

In October 2011, the sale of ING Investment Management (ING IM) Australia to UBS AG was completed ING IM Australia's business provided a number of investment strategies and products directly to the Australian institutional and wholesale markets. ING IM Australia was previously included in the segment ING Investment Management.

Latin American pensions, life insurance and investment management operations

In December 2011 the sale of the Latin American pensions, life insurance and investment management operations ("Latin American operations") for a total consideration of EUR 2,637 million to Grupo de Inversiones Suramericana ("GRUPOSURA") was completed. The sale was the first major step in the divestment of the insurance and investment management activities. Under the terms of the agreement, EUR 2,572 million in cash was received and GRUPOSURA assumed EUR 65 million in debt. The sale resulted in a net profit of EUR 995 million. Included in the transaction were the mandatory pension and voluntary savings businesses in Chile, Colombia, Mexico, Uruguay and the 80% interest in AFP Integra S.A. in Peru; the life insurance businesses in Chile and Peru. As part of this transaction the 33.7% interest in Peruvian InVita Seguros de Vida S.A. was sold to the Wiese Family. The transaction also included the local investment management capabilities in these five countries. Not included in the transaction was the 36% interest in the leading Brazilian insurer Sul América S.A.

The Latin American operations were previously included in the segments Insurance Latin America and Investment Management before they classified as discontinued operations. The segment Insurance Latin America ceased to exist following this transaction as the majority of the assets and activities in this segment have been sold. The net result from discontinued operations was presented separately in the consolidated profit and loss account. Reference is made to Note 33 "Discontinued operations" for more detailed disclosures.

Notes to the Consolidated annual accounts of NN Group continued

Most significant companies divested in 2011

	Pacific Antai Life Insurance Company Ltd.	Latin American operations	Total
Sales proceeds			
Cash proceeds [1]	82	2,572	2,654
Non-cash proceeds		65	65
Sales proceeds	82	2,637	2,719
Assets			
Cash and cash equivalents	7	80	87
Investments	146	644	790
Loans and advances to customers	54	6	60
Financial assets at fair value through profit or loss	10	679	689
Miscellaneous other assets	48	1,491	1,539
Liabilities			
Insurance and investment contracts	205	715	920
Other borrowed funds		66	66
Miscellaneous other liabilities	14	563	577
Net assets	46	1,556	1,602
% divested	80%	Various [2]	
Net assets divested	37	1,478	1,515
Gain on divestment [3]	28	995	1,023

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually insignificant disposals in addition to the cash flow presented.
[2] Comprises various entities as explained in the description of the divestment.
[3] The gain on divestments comprises the sales proceeds, the net assets divested, the expenses directly related to the divestment and the realisation of unrealised reserves.

Notes to the Consolidated annual accounts of NN Group continued

50 PRINCIPAL SUBSIDIARIES

For the majority of NN Group's principal subsidiaries, NN Group N.V. has control because it either directly or indirectly owns more than half of the voting power. For each of the subsidiaries listed below, the voting rights held equal the proportion of ownership interest. For subsidiaries in which the interest held is below 50%, control exists based on the combination of NN Group's financial interest and its rights from other contractual arrangements which result in control over the operating and financial policies of the entity.

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

Entities that are part of the insurance operations

		Proportion of ownership interest held by NN Group	
		2013	2012
Subsidiary			
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands	**100%**	100%
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands	**100%**	100%
Parcom Capital B.V.	The Netherlands	**100%**	100%
Nationale-Nederlanden Services N.V.	The Netherlands	**100%**	100%
Movir N.V.	The Netherlands	**100%**	100%
ING Re (Netherlands) N.V.	The Netherlands	**100%**	100%
Nationale-Nederlanden Bank N.V.	The Netherlands	**100%**	100%
ING Investment Management Holdings N.V.	The Netherlands	**100%**	100%
ING Pojistovna a.s.	Czech Republic	**100%**	100%
ING Životná poisťovna a.s.	Slovakia	**100%**	100%
ING Uslugi Finansowe S.A.	Poland	**100%**	100%
ING Powszechne Towarzystwo Emerytalne S.A.	Poland	**80%**	80%
ING Asigurari de Viata S.A.	Romania	**100%**	100%
ING Greek Life Insurance Company S.A.	Greece	**100%**	100%
ING Biztosító Zártkörûen Mûködõ Részvénytársaság	Hungary	**100%**	100%
ING Pensionno-Osigoritelno Druzestvo EAD	Bulgary	**100%**	100%
ING Life Belgium N.V.	Belgium	**100%**	100%
ING Non Life Belgium N.V.	Belgium	**100%**	100%
ING Life Luxembourg S.A.	Luxembourg	**100%**	100%
Nationale-Nederlanden Vida, Compañia de Seguros y Reaseguros S.A.	Spain	**100%**	100%
Nationale-Nederlanden Generales, Compañia de Seguros y Reaseguros S.A.	Spain	**100%**	100%
ING Emeklilik A.S.	Turkey	**100%**	100%
ING Life Insurance Company Limited	Japan	**100%**	100%

51 STRUCTURED ENTITIES

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

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

NN Group's activities involving structured entities are explained below in the following categories:

- Consolidated NN Group originated Liquidity management securitisation programmes (Hypenn);
- Investments – NN Group managed Investment funds; and
- Investments – Third party managed structured entities.

Notes to the Consolidated annual accounts of NN Group continued

Consolidated NN Group originated Liquidity management securitisation programmes
In 2013, NN Bank originated a securitisation program of approximately EUR 2.1 billion mortgage loans ("Hypenn"). The related structured entity is consolidated by NN Bank and, therefore, the related mortgage loans continue to be recognised in the Consolidated balance sheet. The structured entity is partly funded through the issue of Residential Mortgage Backed Securities to ING Bank (as at 31 December 2013: EUR 400 million). Reference is made to Note 52 "Related parties".

NN Group managed Investment funds
NN Group originates investment funds. NN Group may hold investments in these funds for its own account through the general account investment portfolio of the insurance operations. Other investments in these funds may be held for the account of policyholders or by third parties. For the majority of these funds, NN Group also acts as the fund manager. NN Group considers both NN Group's financial interests for own risk and its role as investment manager to establish whether control exists and whether the fund is consolidated. In general, NN Group maintains a minority interest in these funds and NN Group receives a fixed fee over assets under management, at arm's length basis, for its asset management activities. These funds are therefore generally not included in the Consolidated annual accounts of NN Group.

Reference is made to Note 4 "Available-for-sale investments" in which investments in equity securities are specified by NN Group managed investment funds and Third party managed investment funds. The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the consolidated balance sheet of NN Group.

Third party managed structured entities
As part of its investment activities, NN Group invests both in debt and equity instruments of structured entities originated by third parties.

Most of the debt investments relate to asset backed securities (ABS). Reference is made to Note 4 "Available-for-sale investments" where the ABS portfolio is disclosed.

The majority of the equity investments relate to interests in investment funds that are not originated or managed by NN Group. Reference is made to Note 4 "Available-for-sale investments" in which investments in equity securities are specified by NN Group managed investment funds and Third party managed investment funds.

NN Group has significant influence for some of its real estate investment funds as disclosed in Note 6 "Investments in associates".

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

Transactions with associates

		Associates	
	2013	2012	2011
Assets		48	47

In 2013, 2012 and 2011 there were no transactions with joint ventures.

Transactions with ING Groep N.V. and ING Bank N.V.

		ING Groep N.V.			ING Bank N.V.	
	2013	2012	2011	**2013**	2012	2011
Assets	**54**			**6,388**	4,942	13,211
Liabilities	**3,394**	3,749	2,617	**961**	294	1,888
Guarantees in favour of					221	250
Income received				**36**	68	338
Expenses paid	**125**	123	60	**100**	176	542

Liabilities to ING Groep N.V. mainly include long term funding.

Notes to the Consolidated annual accounts of NN Group continued

NN Group has entered into the following financing arrangements with ING Group and with ING Bank.

- **Pooled Bank** Accounts: On 19 January 2012, NN Group entered into a pooled bank accounts agreement ("Fiat-en Rentestelsel") with ING Bank, to arrange for a current account deficit facility, and debit/credit interest on a set of pooled bank accounts of NN Group, whereby obligations of NN Group are secured by a right of pledge on bank accounts in favour of ING Bank.
- **WUB guarantees & indemnities:** NN Group has entered into certain guarantee agreements for the benefit of and with Westland/Utrecht Bank N.V. (WUB). NN Group has guaranteed:
  - all non-subordinated debt obligations of WUB (in relation to its funding) and of any of its subsidiaries entered into before 1 January 2013;
  - certain other obligations of WUB (in relation to its swap transactions), not covered by the guarantee under (i) above; and any
  - outstanding debt obligations under WUB's Debt Issuance Programme of 1997.

  Subsequently, NN Group has entered into certain unlimited indemnity agreements with ING Bank and ING Groep under which NN Group is indemnified by ING Bank for its obligations under each of the guarantees referred to above. The expiry date of last outstanding obligations covered by the guarantees is 25 March 2032. Under these guarantees in aggregate EUR 213 million was outstanding as at 31 December 2013.
- **ING U.S – ISDA guarantee:** NN Group has guaranteed the obligations under an ISDA Master Agreement entered into by a subsidiary of ING U.S. (which is currently 57% owned by ING Group). NN Group is indemnified by ING Group for this guarantee as outlined in an indemnity agreement between ING Group and the Company.
- **LOC Facility:** NN Group has entered into a Letter of Credit agreement ("LOC") with ING Bank on 29 April 2010, to the maximum facility amount of USD 185 million. Under this LOC Facility in aggregate EUR 116 million was outstanding as at 31 December 2013. All obligations under this LOC will expire at the end of 2014.
- **Senior Bridge Loan:** On 18 September 2013, NN Group (as Borrower) has entered into a senior loan agreement with ING Groep (as Lender), currently in the aggregate amount of EUR 1,000 million. The maturity date of this loan is 18 March 2014.
- **Revolving Credit Facility:** On 1 July 2013, NN Bank (as Borrower) has entered into a senior revolving credit facility agreement with ING Bank (as Lender) in the aggregate amount of EUR 250 million (under which currently no amounts have been drawn). The maturity date of this facility is 30 June 2015.
- **Senior Unsecured Notes:** On 1 July 2013, NN Bank N.V. has issued senior unsecured notes and placed the notes with ING Bank in the aggregate amount of EUR 270 million. The maturity date of these notes is 30 June 2023.
- **Pledge Financial Collateral Agreement:** On 20 December 2012, NN Group (as Pledgee) has entered into a Financial Collateral Pledge Agreement with ING Bank by which a right of pledge was created in favour of NN Group on certain securities held by ING Bank. The pledge serves as security for the duly repayment of cash deposits that NN Group has placed with ING Bank. This agreement will expire as of 20 March 2014.
- **Subordinated Loans:** NN Group has entered into perpetual subordinated loan agreements with ING Group. Reference is made to Note 14 "Subordinated loans".
- **Cash Investments:** ING Bank holds, for the benefit of NN Group cash positions in bank accounts, in the aggregate amount of EUR 829 million as at 31 December 2013 and investments in money market instruments, in the aggregate amount of EUR 5,383 million as at 31 December 2013.
- **Derivative transactions:** For general hedging purposes, NN Group has entered into derivative transactions with ING Bank on the basis of standard legal (master) derivative documentation.
- **Securities Lending:** NN Group (as Lenders) has entered into securities lending transactions with ING Bank N.V. (as Borrower) on the basis of customary legal (master) documents, lending debt securities, that are classified as available-for-sale instruments in the Consolidated balance sheet, to ING Bank in the aggregate amount of EUR 700 million during 2013, for general investment purposes. These debt securities remain to be recognised on the Consolidated balance sheet.
- **Securitisations:** NN Bank has entered into a Residential Mortgage-Backed Securities (RMBS) -transaction with ING Bank N.V. for the aggregate amount of EUR 400 million (of which currently EUR 400 million is outstanding).
- NN Bank has entered into a service agreement with Westland/Utrecht Hypotheekbedrijf N.V. and RVS Hypotheekbank N.V. on 1 July 2013, for providing certain management services in relation to a housing mortgage loan portfolio of Westland/Utrecht Bank N.V.
- In 2013 EUR 1.9 billion (2012: EUR 1.9 billion; 2011: EUR 1.8 billion) ING Bank mortgages were sold through the NN Group intermediary sales agents.

During 2013, due to the partly transfer of WestlandUtrecht Bank, certain assets and liabilities were transferred from ING Bank to NN Group. Reference is made to Note 49 "Companies and businesses acquired and divested".

Master claim agreement

In 2012, ING Groep N.V., ING U.S., Inc. and ING Insurance Eurasia N.V. entered into a master claim agreement to (a) allocate existing claims between these three parties and (b) agree on criteria for how to allocate future claims between the three parties. The master claim agreement contains further details on claim handling, conduct of litigation and dispute resolution. In 2014, NN Group replaced ING Insurance Eurasia N.V. as a party to the agreement.

Notes to the Consolidated annual accounts of NN Group continued

Indemnification and allocation agreement with ING Insurance Eurasia N.V.
ING Groep N.V. and NN Group N.V. have entered into an indemnification and allocation agreement, in which ING Group has agreed to indemnify NN Group for certain liabilities that relate to the business of or control over certain (former) U.S. and Latin American subsidiaries of NN Group in the period until 30 September 2013 or, if the relevant subsidiary was divested by NN Group after 30 September 2013, such later date of divestment. These liabilities mainly include contingent liabilities that may arise as a result of the initial public offering of ING U.S. (such as prospectus liability) and the sales of the Latin American businesses (such as claims under warranties and other buyer protection clauses), and the liabilities for the claims concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN Group in Mexico and the claims filed by the purchaser of certain Mexican subsidiaries of NN Group claiming that the financial condition of the subsidiaries was not accurately depicted.

Key management personnel compensation
Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. Transactions with post-employment benefit plans are disclosed in Note 38 “Pension and other post-employment benefits”.

The governance of the insurance operations has changed during the reporting period and in early 2014. In 2013, all members of the Management Board ING Insurance Eurasia N.V. have become members of the Management Board ING Verzekeringen N.V. From 1 March 2014 onwards, due to the legal merger between ING Verzekeringen N.V. and ING Topholding N.V. and the subsequent change of the name of the entity to NN Group, all members of the Management Board ING Verzekeringen N.V. have become members of the Management Board NN Group. The disclosures in the below tables therefore are based on the members of the Management Board NN Group.

For the year 2013, the Management Board ING Topholding N.V. consisted solely of the members of the Executive Board of ING Groep N.V. The remuneration of this Management Board is borne by ING Groep N.V. and disclosed separately in the below tables.

Three of the Management Board members of NN Group are also Executive Board members of ING Groep N.V. The total remuneration of the Executive Board of ING Groep N.V. and Supervisory Board is borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board and Supervisory Board are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

Due to the transfer of ING U.S. in 2013, the Executive Officers of ING U.S., Inc. are no longer considered key management personnel of NN Group.

In 2013 and 2012, the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150,000 of each employee, subject to Dutch income tax. The tax is charged to NN Group and does not affect the remuneration of involved staff. The tax imposed on NN Group for relevant members of the Executive Board and Management Board amounts to EUR 1.6 million (2012; EUR 0.9 million), which is not included in the amounts in the table below.

Key management personnel compensation (Executive Board and Management Board)

2013 Amounts in thousands of euros	Executive Board of ING Groep N.V. (1,2)	Management Board (3)	Total
Fixed compensation			
– Base salary	3,309	3,351	6,660
– Pension costs	549	745	1,294
– Termination benefits		765	765
Variable compensation			
– Upfront cash		395	395
– Upfront shares		395	395
– Deferred cash		593	593
– Deferred shares		593	593
Total compensation	3,858	6,837	10,695

(1) Includes their compensation earned in the capacity as Executive Board members Mr. Hamers was appointed to the Executive Board on 13 May 2013 and Mr. Hommen stepped down from the Executive Board as per 1 October 2013.
(2) The members of the Executive Board of ING Groep N.V. were also members of the Management Board ING Topholding N.V. for the year 2013.
(3) Excluding members that are also members of the Executive Board of ING Groep N.V.

Notes to the Consolidated annual accounts of NN Group continued

Key management personnel compensation (Executive Board and Management Board)

2012 amounts in thousands of euros	Executive Board of ING Groep N.V. [1]	Management Board [2,3,4]	Total
Fixed compensation			
– Base salary	2,572	4,897	7,469
– Pension costs	311	893	1,204
– Termination benefits		1,873	1,873
Variable compensation			
– Upfront cash		2,296	2,296
– Upfront shares		160	160
– Deferred cash		240	240
– Deferred shares		2,604	2,604
– Other		339	339
Total compensation	2,883	13,302	16,185

[1] The members of the Executive Board of ING Groep N.V. were also members of the Management Board ING Topholding N.V. for the year 2013.
[2] Excluding members that are also members of the Executive Board of ING Groep N.V.
[3] Besides the compensation in his capacity as Board member, one of the Management Board members received a "buy-out" for the compensation that he would have received had he not resigned from his former employer. The buy-out consists of a cash amount and shares with a total value of EUR 500.000 at the grant date, which vests in the years 2012-2015.
[4] After publication of the 2012 Annual Account, a variable reward of EUR 84,375 was awarded to one board member, which was pending final approval. The 2012 figures were updated for this award.

Key management personnel compensation (Executive Board and Management Board)

2011 amounts in thousands of euros	Executive Board of ING Groep N.V. [1]	Management Board [2]	Total
Fixed compensation			
– Base salary	2,666	2,560	5,226
– Pension costs	315	481	796
Variable compensation			
– Upfront cash		643	643
– Upfront shares		341	341
– Deferred cash		511	511
– Deferred shares		945	945
Total compensation	2,981	5,481	8,462

[1] The members of the Executive Board of ING Groep N.V. were also members of the Management Board ING Topholding N.V. for the year 2013.
[2] Excluding members that are also members of the Executive Board of ING Groep N.V.

In 2013, the total remuneration costs amounted to EUR 3.9 million (2012: EUR 2.9 million; 2011: EUR 3.0 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.9 million (2012: EUR 1.4 million; 2011: EUR 1.5 million) was allocated to NN Group. The total remuneration costs amounted EUR 1.1 million (2012: EUR 0.8 million; 2011: EUR 0.9 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.5 million (2012: EUR 0.4 million; 2011: EUR 0.4 million) was allocated to NN Group.

Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	**2013**	2012	2011
Base salary	**1,065**	806	857
Total compensation	**1,065**	806	857

The disclosures relating to remuneration of the Supervisory Board reflect the amounts relating to ING Group as a whole. The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2013, 2012 and 2011. From 1 January 2013, new VAT legislation became effective based on which Dutch members of the Supervisory Board are considered as self-employed persons who's compensation is subject to VAT in the Netherlands. The table presented above is including VAT of EUR 0.1 million for 2013.

Notes to the Consolidated annual accounts of NN Group continued

Loans and advances to key management personnel

amounts in thousands of euros	Amount outstanding 31 December 2013	2012	2011	Average interest rate 2013	2012	2011	Repayments 2013	2012	2011
Executive Board members	**3,347**	2,338	1,968	**2.7%**	3.3%	3.6%	**500**		
Members of the Management Board		480	2,314	**0.0%**	3.1%	3.4%		60	388
Supervisory board members			282	**0.0%**		8.6%		282	
Total	**3,347**	2,818	4,564				**500**	342	388

Key management personnel compensation is generally included in Staff expenses in the profit and loss account, except for Key management personnel employed by entities that are presented as held for sale and discontinued operations in which case their compensation is included in the Total net result from discontinued operations.

Remuneration of the Executive Board and Management Board NN Group is recognised in the P&L in Staff expenses as part of Total expenses. The total remuneration of the Executive Board and Management Board NN Group as disclosed in the table above (for 2013: EUR 10.7 million) includes all variable remuneration related the performance year 2013. Under IFRS, certain components of variable remuneration are not recognised in the P&L directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2013, and therefore included in Total expenses in 2013, relating to the fixed expenses of 2013 and the vesting of variable remuneration of earlier performance years, is EUR 9.2 million.

Transactions with the Dutch State

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-Up Facility (“IABF”) on 26 January 2009. The transaction closed on 31 March 2009. The IABF covers the Alt-A portfolios of ING Insurance US, with a par value of approximately EUR 4 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 2.6 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 2.7 billion. The transaction resulted in a loss in the first quarter of 2009 of EUR 154 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 1.7 billion.

In order to obtain approval from the European Commission on ING Groep N.V.’s Restructuring Plan (see below), ING agreed to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion before tax, which was recognised as a one-off charge for ING Groep N.V. in the fourth quarter of 2009.

The difference between the total sales proceeds and the fair value under IFRS-EU represents a “Government grant” under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction. The transaction resulted in a reduction of the negative revaluation – and therefore an increase in equity – of EUR 0.7 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 40 “Fair value of financial assets and liabilities”.

In connection with the sale of ING Direct USA, ING has reached an agreement with the Dutch State to adjust the structure of the Illiquid Assets Back-up Facility (IABF). This adjustment served to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State and became effective at the closing of the sale in February 2012. Under the terms of the original transaction ING Direct USA held on its balance the remaining 20% of the Alt-A portfolio, ensuring an alignment of interests between ING and the Dutch state regarding the performance of the portfolio.

Upon closing of the sale ING provided a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee covered realised cash losses if they would exceed the 35% that is implied by the market value of the portfolio in June 2011. This adjustment therefore lowered the risk exposure for the Dutch State.

As at 31 December 2011, the remaining outstanding amount from the transaction price, including the unamortised components, that remained payable by the Dutch State was EUR 1.4 billion for the insurance operations.

In November 2012, ING restructured the IABF to effectively delink ING Insurance US from the IABF as another step towards a planned IPO of ING Insurance US. ING Insurance US transferred its Dutch State receivable of approximately EUR 1.1 billion (USD 1.4 billion) to ING Bank, and at the same time transferred legal title to 80% of the Alt-A portfolio to ING Bank. As at 31 December 2012, ING Insurance US therefore no longer has a receivable from the Dutch State in connection with the IABF. The securities were held in an ING Bank custody account for the benefit of the Dutch State (the portion for which the investment risk has been transferred to the Dutch State). Following the restructuring, ING Insurance US continues to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remains for the risk of ING), but will going forward have the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING has committed to the Dutch State it will not sell these securities to non-ING parties without the prior written consent of the Dutch state.

In December 2013, ING reached a final agreement with the Dutch State on the unwinding of the IABF. The terms of the agreement were approved by the EC. Under the agreement, the IABF in its current form was terminated, the regular guarantee fee payments were settled for an amount of EUR 0.4 billion and the other restrictions as part of the IABF agreement are no longer applicable. Furthermore, under the agreement, the Dutch State committed to sell the Alt-A securities in the market.

The total nominal value of the portfolio of securities held by the Dutch state decreased to EUR 4.6 billion at 31 December 2013 as a result of regular repayments on the underlying mortgages by homeowners and the first tranche of the divestment of securities with a notional outstanding amount of EUR 3.7 billion following the termination of the IABF. The remaining nominal value of the portfolio of securities held by the Dutch state as at 31 December 2013 was sold in January and early February 2014.

The State used all repayments and net fees received to pay off the loan from ING, reducing the amount outstanding to EUR 2.7 billion at 31 December 2013 (2012: EUR 7.8 billion). This remaining amount was fully repaid in January 2014.

Unwinding the IABF also resulted in eliminating a counter-guarantee that ING extended to the Dutch state in connection with the divestment of ING Direct USA in 2012.

European Commission Restructuring Plan

In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. By decision of 18 November 2009, the European Commission, formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

- elimination of double leverage and significant reduction of ING’s balance sheet;
- divestment of all Insurance and Investment Management activities;
- divestment of ING Direct USA;
- creation of a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, needs to be divested;
- restriction to be a price leader in any EU country for certain retail and SME banking products and restriction to acquire financial institutions or other businesses that would delay the repayment of the non-voting equity securities.

Notes to the Consolidated annual accounts of NN Group continued

These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State:

- an agreement with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- repayment of EUR 5 billion of the non-voting equity securities issued in November 2008 to the Dutch State;
- additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING of EUR 1.3 billion in the fourth quarter of 2009;
- launch of a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and a mitigation of the capital impact of the additional Illiquid Assets Back-up Facility payment as part of the overall agreement with the European Commission to the Dutch State of EUR 1.3 billion;
- execution of the Restructuring Plan before the end of 2013;
- if the overall return on the (remaining) non-voting equity securities (core Tier 1 securities) issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints; and
- The calling of Tier 2 capital and Tier 1 hybrids will in the future be proposed case by case to the Commission for authorisation, for the shorter period of three years starting from the date of the Commission decision or up to the date on which ING has fully repaid the non-voting equity securities (core Tier 1 securities) to the Dutch State (including the relevant accrued interest of core Tier 1 coupons and exit premium fees).

ING announced in November 2012 that, together with the Dutch State, it had submitted significant amendments to the 2009 Restructuring Plan to the European Commission. The European Commission approved these amendments by Decision of 16 November 2012.

Amendments to the Restructuring Plan in 2012

The amendments to the 2009 Restructuring Plan as announced in November 2012 extended the time horizon and increased the flexibility for the completion of divestments and adjusted other commitments in light of the market circumstances, economic climate and more stringent regulatory requirements.

Under the amendments announced in 2012, the ultimate dates for divesting the insurance and investment management businesses changed as follows:

- The divestment of more than 50% of ING's interest in its Asian insurance and investment management operations has to be completed by year-end 2013, with the remaining interest divested by year-end 2016;
- The divestment of at least 25% of ING's interest in ING U.S. has to be completed by year-end 2013, more than 50% has to be divested by year-end 2014, with the remaining interest divested by year-end 2016;
- The divestment of more than 50% of ING's interest in its European insurance and investment management activities has to be completed by year-end 2015, with the remaining interest divested by year-end 2018; and
- As ING has committed to eliminate double leverage, proceeds from the divestments will be used to that end while ensuring adequate leverage ratios of the insurance holding companies.

A divestment of more than 50% of ING's interest as mentioned in this paragraph and furthermore below also means that ING Group (a) no longer has a majority of representatives on the Boards of these operations and (b) has deconsolidated these operations from ING Group's financial statements in line with IFRS-EU accounting rules.

Under the terms of the 2009 Restructuring Plan, ING was required to divest WestlandUtrecht Bank. However, due to market circumstances and changing regulatory requirements, a divestment of WestlandUtrecht did not occurred. Instead, under the 2012 amended Restructuring Plan, the commercial operations of WestlandUtrecht Bank were combined with the retail banking activities of NN Bank, which is to be divested as part of ING's insurance and investment management operations in Europe. The result has to be that NN Bank is a viable and competitive business, which stands alone and is separate from the businesses retained by ING. To this end ING already needs to ring-fence NN Bank up to the divestment of more than 50% of the European insurance and investment management activities.

On 1 July 2013 EUR 3.8 billion of WestlandUtrecht Bank's Dutch mortgage portfolio, EUR 0.1 billion of consumer lending and EUR 3.7 billion of Dutch savings portfolio were transferred to NN Bank. In addition approximately 400 of WestlandUtrecht Bank's employees were transferred to NN Bank. All assets and liabilities were transferred at the existing carrying value as previously included in ING Bank's balance sheet. This transaction was completed on 1 July 2013.

ING has committed amongst others, that NN Bank will reach certain targets for mortgage production and consumer credit until the date at which more than 50% of NN Group has been divested or until 31 December 2015 if the European Commission requires so. Furthermore, ING has agreed to a maximum ratio for mortgage production at ING Retail Banking Netherlands in relation to mortgage production of NN Bank until year-end 2015.

The 2009 Restructuring Plan included restrictions on acquisitions and price leadership for certain products in EU markets. These restrictions will continue to apply until 18 November 2015 or until the date on which more than 50% of each of the insurance and investment management operations has been divested, whichever date comes first.

Notes to the Consolidated annual accounts of NN Group continued

The price leadership restrictions in Europe have been amended to reflect specific conditions in various local markets. Under the amendments, the constraint no longer applied in the Netherlands, but ING Direct in the EU will refrain from offering more favourable prices than its best priced direct competitor among the ten financial institutions having the largest market share in the respective countries.

The calling or buy-back of Tier 2 capital and Tier 1 Hybrid Securities will continue to be proposed for authorisation to the European Commission on a case by case basis until ING has fully repaid the core Tier 1 securities to the Dutch State, but ultimately until 18 November 2014, whichever date comes first. Notwithstanding this restriction, ING was allowed to call the EUR 1.25 billion hybrid securities, originally issued by ING Verzekeringen N.V. on 21 December 2012.

The 2012 amended Restructuring Plan includes a repayment schedule for the remaining core Tier 1 securities to the Dutch State.

The implementation of the commitments and obligations set out in the (amended) Restructuring Plan will be monitored by a monitoring trustee who is independent of ING until 31 December 2015.

The 2012 amended Restructuring Plan was formally approved by the European Commission, by decision of 16 November 2012. As a result, the Commission closed its formal investigations as announced on 11 May 2012 and ING also withdrew its appeal at the General Court of the European Union, filed in July 2012. For principal legal reasons, the European Commission has continued with its appeal against the General Court ruling of March 2012. However, ING, the Dutch State and the European Commission agreed that any outcome of this procedure will not affect the approval of the amended Restructuring Plan. It is expected that this judgment will be rendered in April 2014.

Amendments to the Restructuring Plan in 2013
In November 2013 further amendments to the Restructuring Plan were announced. It was announced that the scope of the intended Initial Public Offering (IPO) of NN Group is expanded to include ING Life Japan. In that context, ING and the Dutch State have reached an agreement with the European Commission on revised timelines for the divestment process of ING Life Japan and ING's European insurance and investment management activities.

As part of the previously announced amended restructuring agreement with the EC in 2012, ING planned to divest more than 50% of ING's Asian insurance and investment management businesses by the end of 2013. ING successfully divested most of these businesses over the course of the past year. Under the revised timelines announced, ING will divest ING Life Japan in line with the divestment timeline for ING's European insurance and investment management activities. This means that the timeline to divest more than 50% of ING Life Japan has effectively been extended by two years to year-end 2015, which is also the unchanged timeline to divest more than 50% of ING's European insurance and investment management businesses. As part of the revised 2013 agreement, ING will accelerate the timeline to complete the divestment of 100% of ING's European insurance and investment management activities by two years to year-end 2016. Preparations for an base case IPO of NN Group in 2014 are on track.

The amendments to the restructuring plan of 2013 were formally approved by the European Commission by decision of 5 November.

Credit Guarantee Scheme
As part of the measures adopted to protect the financial sector, the Dutch State introduced a EUR 200 billion credit guarantee scheme for the issuance of medium term debt instruments by banks (the Credit Guarantee Scheme). ING Bank N.V. issued government guaranteed debt instruments under this Credit Guarantee Scheme ("Government Guaranteed Bonds") as part of its regular medium-term funding operations. The relevant Rules of the Credit Guarantee Scheme set forth the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 15 "Debt securities in issue".

Other
Following the transactions as disclosed in this note, the Dutch State is a related party of ING Group. All other transactions between ING Group and the Dutch State are of a normal business nature and at arm's length.

In the framework of the transactions with the Dutch State disclosed in this note, certain arrangements with respect to corporate governance and executive remuneration were agreed with the Dutch State which were in place until the Illiquid Assets Back-up Facility was unwound. The State Nominees will stay in office for the term for which they were appointed.

Notes to the Consolidated annual accounts of NN Group continued

53 OTHER EVENTS

ING U.S.

IPO of ING U.S. in May 2013

In May 2013, approximately 65.2 million ordinary shares were sold in the Initial Public Offering ("IPO") of ING U.S., Inc., the U.S.-based retirement, investment and insurance business ("ING U.S."). Furthermore, on 29 May 2013, the underwriters of the IPO exercised in full their option to purchase approximately 9.8 million additional shares of ING U.S.

The total proceeds of these transactions were EUR 1,061 million (USD 1,385 million). The IPO reduced the ownership in ING U.S. from 100% to 71.25%.

These transactions did not impact the profit and loss account, as ING U.S. continued to be fully consolidated at that date. The transactions had a negative impact of approximately EUR 1,958 million on Shareholders' equity (parent), including EUR 19 million transaction costs after tax. This amount reflected the difference between the net proceeds of this offering and the IFRS-EU carrying value of the 28.75% interest divested in this IPO. This amount was recognised in "Other reserves".

Minority interests at that date increased with EUR 2,954 million due to the IPO of ING U.S. This amount represented 28.75% of the net asset value under IFRS-EU of ING U.S.

As a result, the total impact on Total equity was EUR 996 million.

Transfer of ING U.S.

At 30 September 2013, the remaining interest in ING U.S. was transferred to ING Groep N.V. by way of dividend in kind of EUR 6,826 million. As of the date of transfer, ING U.S. ceased to be consolidated; the results for the period until transfer are presented as discontinued operations. Reference is made to Note 33 "Discontinued operations".

As the transfer was performed at carrying value, the transaction did not impact Net result from continuing and discontinued operations. The transfer reduced Shareholder's equity with EUR 6,826 million as the reserves relating to ING U.S. were released. Furthermore Minority interest of EUR 3,010 million relating to ING U.S. was also transferred The impact on Total equity is therefore EUR –9,836 million. Reference is made to Note 13 "Equity".

Due to the transfer, the segments Insurance United States (US), Insurance US Closed Block VA, Investment Management US and the Corporate Line US ceased to exist.

NN Group's business in Japan

After carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that a standalone divestment of ING Life Japan, including its Corporate Owned Life Insurance (COLI) and Closed Block VA businesses, is not feasible in a manner that would appropriately meet the demands of regulators and other stakeholders in ING Group and ING Life Japan. Therefore, ING Life Japan will be included with NN Group's European insurance and investment management businesses in the base case IPO of NN Group in 2014.

As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re ("NN Group's business in Japan") are no longer classified as held for sale and discontinued operations. The individual assets and liabilities of NN Group's business in Japan are therefore classified out of Assets and liabilities held for sale and presented in the usual consolidated balance sheet line items. The individual income and expenses of NN Group's business in Japan are classified out of Net result from discontinued operations and presented in the usual consolidated profit and loss account line items.

The comparative periods for the balance sheet have not been restated and therefore the assets and liabilities of NN Group's business in Japan are still included in Assets and liabilities held for sale for the year 2012. All comparative periods in the Consolidated profit and loss account have been restated for this decision and therefore income and expenses of NN Group's business in Japan are included in the continuing operations part of the statement for the years 2012 and 2011.

NN Group has adjusted its reporting structure to better align its segmentation according to the businesses that it comprises, their governance and internal management, and to reflect the decision to divest ING Life Japan with the IPO of NN Group. The new reporting segments for NN Group are as follows:

- Netherlands Life
- Netherlands Non-life
- Insurance Europe
- Japan Life
- Investment Management (IM)
- Other
- Japan Closed Block VA

Reference is made to Note 36 "Segments".

Notes to the Consolidated annual accounts of NN Group continued

Japan Life, representing COLI business, and the Japan Closed Block VA, are reported separately to reflect the distinct nature of these two Japanese businesses. Under NN Group's existing accounting policies, the net insurance liability of any business line must be adequate at the 50% confidence level. The Japan Closed Block VA business had a reserve inadequacy at the 50% confidence level in October 2013. This inadequacy used to be offset by surplus adequacies in other businesses in the same business line that the Japan Closed Block VA business used to be part off, The separate reporting of the Japan Closed Block VA business line therefore triggered a charge of approximately EUR 575 million before tax to restore the reserve inadequacy. This charge resulted in a write-off of all deferred acquisition costs (DAC) related to the Japan Closed Block VA business of EUR 1,405 million partly compensated by a release of the Life insurance provision related to unearned revenues of EUR 867 million, and an increase in the life insurance provisions for the remaining amount.

Australia
In 2013, ING Australia Holdings Limited was transferred to ING Bank at carrying value. ING Australia Holdings Limited does not have operating activities.

Notes to the Consolidated annual accounts of NN Group continued

54 RECLASSIFIED BALANCE SHEET AND CASH FLOW STATEMENT

In order to provide comparable information based on a comparable scope of entities, reclassified Consolidated balance sheets and reclassified Consolidated cash flow statements are presented for the years 2012 and 2011 in addition to the IFRS-EU statements. In these reclassified statements all businesses that have been divested or presented as held for sale as at 31 December 2013, are treated as held for sale in 2012 and 2011.

Reclassified Balance sheet

	2013	Reclas-sified 2012	Reclas-sified 2011	IFRS 2012	IFRS 2011
Assets					
Cash and cash equivalents	**7,155**	4,347	9,707	5,389	11,577
Financial assets at fair value through profit or loss:					
– trading assets	**736**	586	503	586	534
– investments for risk of policyholders	**39,589**	43,821	43,075	98,765	116,438
– non-trading derivatives	**3,126**	4,662	5,157	5,107	7,285
– designated as at fair value through profit or loss	**482**	2,696	29	2,000	2,616
Available-for-sale investments	**61,014**	68,316	60,646	119,305	133,604
Loans and advances to customers	**25,319**	17,676	20,870	25,823	32,928
Reinsurance contracts	**252**	266	373	5,290	5,870
Investments in associates	**1,028**	1,265	1,435	1,352	1,526
Real estate investments	**764**	799	865	805	954
Property and equipment	**164**	203	243	338	469
Intangible assets	**392**	437	510	1,018	1,972
Deferred acquisition costs	**1,353**	3,142	3,404	4,549	10,204
Other assets	**3,754**	4,558	5,670	6,735	9,631
Total assets excluding assets held for sale	**145,128**	152,772	152,488	277,062	335,608
Assets held for sale	**630**	185,981	183,120	61,691	
Total assets	**145,758**	338,753	335,608	338,753	335,608
Equity					
Shareholder's equity (parent)	**14,227**	26,423	23,412	26,423	23,412
Minority interests	**68**	217	62	217	62
Total equity	**14,295**	26,640	23,474	26,640	23,474
Liabilities					
Subordinated loans	**2,892**	2,947	4,367	2,947	4,367
Debt securities in issue		773	2,934	1,910	3,436
Other borrowed funds	**4,817**	5,293	5,876	7,442	7,307
Insurance and investment contracts	**111,551**	123,013	121,683	229,950	278,833
Customer deposits and other funds on deposit	**5,769**				
Financial liabilities at fair value through profit or loss:					
– non-trading derivatives	**1,843**	2,610	1,696	3,258	4,404
Other liabilities	**4,125**	5,920	5,808	10,951	13,787
Total liabilities excluding liabilities held for sale	**130,997**	140,556	142,364	256,458	312,134
Liabilities held for sale	**466**	171,558	169,770	55,655	
Total liabilities	**131,463**	312,113	312,134	312,113	312,134
Total equity and liabilities	**145,758**	338,753	335,608	338,753	335,608

In the 2012 and 2011 reclassified balance sheets, Assets and liabilities held for sale includes ING U.S., the insurance and investment management businesses in Asia ("Asia") excluding NN Group's business in Japan and ING Hypotecaria. In these reclassified balance sheets the assets and liabilities of NN Group's business in Japan are included on a line by line basis.

In the 2012 and 2011 IFRS balance sheets, Assets and liabilities held for sale includes the insurance and investment management businesses in Asia ("Asia") including NN Group's business in Japan.

Notes to the Consolidated annual accounts of NN Group continued

Reclassified Cash flow statement

		Reclassified		IFRS	
	2013	2012	2011	2012	2011
Cash and cash equivalents at the beginning of the period/year	**6,717**	11,577	6,666	11,577	8,646
Net cash flow from operating activities	**–8,247**	–448	–1,587	723	2,068
Net cash flow from investing activities	**8,126**	–806	1,548	–2,881	2,477
Net cash flow from financing activities	**457**	–4,088	3,055	–2,737	–1,558
Net cash flow from entities held for sale		501	1,870		
Effect of foreign exchange rate changes	**182**	–19	25	35	–56
Closing cash and cash equivalents at the end of the period/year	**7,235**	6,717	11,577	6,717	11,577

55 SUBSEQUENT EVENTS

Defined Benefits Pension Fund in The Netherlands

In February 2014 ING reached an agreement with the trade unions, the ING Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations of ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement has made the ING Pension Fund financially independent from ING.

The key elements of the agreement are:

- Responsibility for future indexation and funding thereof will be transferred to the Dutch ING Pension Fund;
- ING's obligation to restore the coverage ratio of the Dutch ING Pension Fund ceased;
- The cross guarantees between ING Bank and NN Group to jointly and severally fund the obligations of the Dutch ING Pension Fund are terminated;
- ING paid EUR 549 million (before tax) to the Dutch ING Pension Fund for the removal of these obligations; and
- ING will reduce the employees' own contribution to the pension premium under the new defined contribution plan by approximately EUR 80 million over a 6 year period.

As part of the agreement, ING Bank and NN Group are released from all financial obligations arising from the Dutch defined benefit plan. Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from the balance sheet. The removal of the net pension asset related to the Dutch defined benefit pension plan from the balance sheet of approximately EUR 0.6 billion after tax and the payment to the Dutch ING Pension Fund of EUR 0.5 billion (EUR 0.4 billion after tax) will result in a charge of approximately EUR 1.1 billion after tax to be recognised in 2014. Of this impact, EUR 0.4 billion will be attributed to NN Group.

Accounting for GMDB in Japan Closed Block VA

NN Group applies fair value accounting on the reserves for Guaranteed Minimum Death Benefits (GMDB) of the Japan Closed Block VA from 1 January 2014. This improves the alignment of the carrying value of the GMDB reserves with their market value, better reflects the economic value of these guarantees and improves the alignment of the accounting for the guarantees with the accounting for the related hedges. Furthermore, this move makes the accounting for the GMDB consistent with the accounting on the reserves for Guaranteed Minimum Accumulation and Withdrawal benefits. As at 1 January 2014, the difference between the current carrying value and the estimated fair value of the GMDB reserves was EUR 219 million (before tax). Implementation of fair value accounting for GMDB represents a change in accounting policy under IFRS-EU with a transitional impact of EUR 165 million after tax being reflected only in Shareholder's equity as of 1 January 2014. Results for comparative periods will be restated accordingly.

Risk management

amounts in millions of euros, unless stated otherwise

INTRODUCTION

Risk taking is integral to the business model for insurance, investment management, and banking organisations such as NN Group. NN Group has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices, NN Group seeks to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

NN Group's approach to risk management is based on the following components:

- ***Risk management structure and governance systems.*** NN Group's risk management structure and governance systems follow the "three lines of defence" model, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Group's risk management. These structure and governance systems are embedded in each of NN Group's organisational layers, from the holding level to the individual business units.
- ***Risk management framework.*** NN Group's risk management framework takes into account the relevant elements of risk management, including its integration into NN Group's strategic planning cycle, the management information generated, and a granular risk assessment.
- ***Risk management policies, standards and processes.*** NN Group has a comprehensive set of risk management policies, standards and processes, which are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN Group's business and risk profile. These risk management policies, standards and processes apply throughout NN Group and are used by NN Group to establish, define, and evaluate NN Group's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

ORGANISATIONAL RISK MANAGEMENT STRUCTURE

MANAGEMENT BOARD AND ITS (SUB)COMMITTEES

The Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. The Management Board or its subcommittees approve all risk management policies as well as the quantitative and qualitative elements of NN Group's risk appetite. The Management Board reports and discusses these topics with the Risk Committee, which is a sub-committee of the Supervisory Board, on a quarterly basis.

While the Management Board retains ultimate responsibility for NN Group's risk management, it has delegated certain responsibilities to a committee of the Management Board, the Risk and Finance Committee, which is responsible for day-to-day risk and finance related risk management decision-making, processes and controls. The Risk and Finance Committee has further delegated certain tasks to sub-committees, which advise the Risk and Finance Committee on risk and finance-related topics. These sub-committees are the Asset and Liability Committee, the Non-Financial Risk Committee, the Product Risk Committee, the Model Committee, the Finance Committee, the Investment Committee, and the Crisis Committee.

Chief risk officer

The chief risk officer of NN Group (the **CRO**) is a member of the Management Board. The CRO bears primary and overall responsibility for NN Group's risk management. The CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand, the material risks to which NN Group is exposed. Each business unit has its own chief risk officer, who reports (directly or indirectly) to the CRO.

The CRO is primarily responsible for:

- setting risk policies;
- formulating NN Group's risk management strategy and ensuring that it is implemented throughout NN Group;
- monitoring compliance with NN Group's overall risk policies;
- supervising the operation of NN Group's risk management and business control systems;
- reporting of NN Group's risks and the processes and internal business controls; and
- making risk management decisions with regard to matters which may have an impact on the financial results of NN Group or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the Management Board and the general affairs of the Company and its business. For risk management purposes the Supervisory Board is assisted by two committees:

- ***Risk Committee***. The Risk Committee assists the Supervisory Board in supervising and advising the Management Board with respect to NN Group's risk management strategy and policies.
- ***Audit Committee.*** The Audit Committee reviews and assesses the applicable accounting standards and the Company's compliance therewith, the going concern assumption, significant financial risk exposures, significant adjustments resulting from audit, compliance with statutory and legal requirements and regulations, tax and tax planning matters with a material impact on the financial statements, and detection of fraud and other illegal acts.

Three lines of defence model

The three lines of defence model, on which NN Group's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities, and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the Management Board, ratified by the Supervisory Board, and cascaded throughout NN Group.

- ***First line of defence***: the CEOs of the business units of NN Group and the other management board members of the business units have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses. They underwrite the insurance products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Group's best interest.
- ***Second line of defence***: oversight functions at the Head Office and at the business units with a major role for the risk management organisation, headed by the CRO and the corporate legal and compliance function. The membership of the CRO on the Management Board ensures that risk management issues are heard and discussed at the highest level. The CRO steers a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions:
  - develop the policies and guidance for their specific risk and control area;
  - encourage and objectively challenge/monitor sound risk management throughout the organisation and coordinate the reporting of risks;
  - support the first line of defence in making proper risk-return trade-offs;
  - have escalation/veto power in relation to business activities that are judged to present unacceptable risks to NN Group.
- ***Third line of defence***: corporate audit services (**CAS**). CAS provides an independent assessment of the standard of internal control with respect to NN Group's business and support processes, including governance, risk management and internal controls.

RISK MANAGEMENT FRAMEWORK

NN Group's risk management framework comprises a series of sequential steps, through which NN Group seeks to identify, measure and manage the risks to which it is exposed. The diagram below sets out these steps.

Risk management continued

- ***Objective setting***. Business planning and priority setting is undertaken through an annual medium term planning (**MTP**) process, which is integrated with NN Group's own risk and solvency assessment (**ORSA**) process. At the start of the MTP process, NN Group establishes strategic objectives at a holding level. Those strategic objectives are used to establish and define NN Group's risk appetite, which consists of quantitative and qualitative statements defining those risks NN Group wishes to acquire, to avoid, to retain and/or to remove. The strategic objectives are cascaded through the enterprise and business unit plans and evaluated against the risk appetite. Targets and risk limits for the business units are derived from NN Group's overall strategy and risk appetite framework.
- ***Event identification***. NN Group identifies events that may potentially impact its risk position, recognising that uncertainties exist, and that NN Group cannot know with certainty which events will occur and when,, or what the outcome or impact would be if it did occur. As part of event identification, NN Group considers both external and internal factors that affect event occurrence. External factors include economic, business, natural environment, political, demographic, social and technological factors. Internal factors reflect NN Group's choices and concern such matters as infrastructure, personnel, process and technology.
- ***Risk assessment***. NN Group, centrally at the executive level and at the business unit level, considers how events identified in the previous step might affect the achievement of NN Group's strategic objectives. Key risks are assessed on a regular basis and, where appropriate, this analysis is supported by models (such as for NN Group's economic capital calculation; see also "NN's Risk Profile—Economic capital"). NN Group conducts regular top-down assessments of its key risks, both at the holding level and at the level of the individual business units.
- ***Risk response and control***. Once a risk is assessed, NN Group identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the risk appetite framework NN Group designs its response for each assessed risk. Risk and control activities are performed throughout NN Group, at all organisational levels.
- ***Information and communication***. Communication of information is a key part of NN Group's risk management framework. Risk management officers, departments, and committees within NN Group are informed regularly of NN Group's position compared to its strategic objectives and its risk appetite to enable them to monitor developments and to timely take appropriate decisions. Comprehensive reports on NN Group's financial and insurance risks, and on its non-financial risks, are prepared and discussed every quarter. These reports analyse, amongst others, developments in financial markets and their impact on NN Group's capital position, the effectiveness of NN Group's hedge positions, and any incidents that may have occurred.
- ***Monitoring***. The effectiveness of NN Group's risk management itself is also monitored. Regular monitoring ensures that risk management is maintained at all organisational levels of NN Group and is carried out by all three lines of defence.

RISK MANAGEMENT POLICIES, STANDARDS AND PROCESSES

NN Group has a comprehensive set of risk management policies, standards and processes in place. These policies, standards and processes are regularly updated to align with industry practices and changes in NN Group's business profile, and to comply with applicable laws and regulations. Key areas of risk management for which NN Group has established policies, standards and processes are set out below.

RISK APPETITE FRAMEWORK

NN Group's risk appetite framework determines which risks NN Group wishes to take, to avoid, to retain and/or to remove. The risk appetite framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. The risk appetite framework is based on three key quantitative measures that aim to:

- ensure cash capital is sufficient following a 1 in 20 annual risk sensitivity; NN Group quantifies this using regulatory capital sensitivities and potential capital management actions.
- ensure economic solvency is sufficient following a 1 in 20 annual risk sensitivity; NN Group quantifies this risk using available financial resources/economic capital and related sensitivities. Available financial resources (AFR) is a before tax market value surplus defined as market value of assets less market value of liabilities.
- ensure IFRS results before tax are sufficient following a 1 in 20 annual risk sensitivity; NN Group quantifies this risk using sensitivities on the IFRS results before tax.

Risk management continued

In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework that serve to guide risk taking for conduct in the areas of underwriting, Asset and Liability management (**ALM**), investing and operations. These statements support NN Group's strategy, contribute to avoiding unwanted or excessive risk taking, and aim to further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- ***Managing underwriting***. Underwriting and product development is paramount to the insurance business. NN Group strives for appealing, easy to understand and transparent value-for-money products that can be effectively risk-managed over the expected life of the contract.
- ***ALM***. NN Group aims to match its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any mis-matches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations.
- ***Managing investments***. NN Group has an appetite for investments that will provide an appropriate risk and return for NN's policyholders and shareholders.
- ***Managing operations***. Under this category, NN Group stipulates requirements for managing reputation, business continuity, processes and controls, as well as providing a safe and engaging work environment for a competent workforce.

RISK POLICY FRAMEWORK

NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the respective risk committees.

RISK LIMITS

The quantitative risk appetite statement is translated into quantitative risk limits for the business units. The business units report regularly on their risk profile compared to applicable risk appetite and risk limits.

PRODUCT APPROVAL AND REVIEW PROCESS

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

NEW INVESTMENT CLASS AND INVESTMENT MANDATE PROCESS

NN Group maintains a new investment class approval and review process (**NICARP**) for approving new investment classes of assets. At the holding level, NN Group establishes a global list of asset classes in which the business units may invest. Each business unit also maintains a local asset list that is a subset of the global asset list. The local asset list includes asset allocation parameters, which prescribe the relative proportions in which the relevant business unit may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

OWN RISK AND SOLVENCY ASSESSMENT AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

NN Group (and each of its regulated insurance subsidiaries) produces an own risk and solvency assessment (**ORSA**) at least once a year. In the ORSA, NN Group articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether or not its risks and capital are appropriately modelled and how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes an overall assessment of NN Group's solvency position in light of the risks it holds. NN Group's banking and investment management operations, at least once a year, run an internal capital adequacy assessment process (**ICAAP**) in conformity with Basel II requirements. ICAAP tests whether current capital positions are adequate for the financial risks that the relevant NN Group entities bear.

IFRS RESERVE ADEQUACY TEST

All of NN Group's operating insurance entities need to ensure that their IFRS insurance reserves are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. The reserve adequacy test is executed by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin to ensure that the reserves remain adequate based on these assumptions. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets, anticipated new premiums and reinvestment rates in relation to maturing assets.

NON-FINANCIAL RISK DASHBOARD

Non-financial risks are monitored through the non-financial risk dashboard (**NFRD**) process at all levels in the organisation. The NFRD is one tool which provides management at all organisational levels with information about key operational, compliance and legal risks and incidents. The exposure of NN Group to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

MODEL GOVERNANCE AND VALIDATION

NN Group's model governance and validation function seeks to ensure that NN Group's models achieve their intended purpose. Models and their disclosed metrics are approved by the Model Committee. The findings of the model validation function are also reported regularly to the Model committee. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Group. Furthermore, the model validation function carries out validations of internal models related to Solvency II. To ensure independence from the business and other risk departments, the model validation department head reports directly to the CRO.

RECOVERY PLANNING

NN Group has determined a set of measures for early detection of and potential response to a crisis should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, and allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

RISK PROFILE

MAIN TYPES OF RISKS

The following principle types of risk are associated with NN Group's business:

- ***Insurance risk***. Insurance risks are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.
- ***Business risk***. Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.
- ***Market and credit risk***. Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk is the risk of potential losses due to default by NN Group's debtors (including bond issuers), trading counterparties or mortgage holders. In relation to market and credit risk, NN Group distinguishes between its general account businesses and its separate account businesses.
  - General account businesses. The general account businesses are those in which NN Group bears the market and credit risk. NN Group's earnings from the general account businesses depend not only on underwriting, but also on the performance of NN Group's investment portfolio. The general account includes NN Group's life insurance and non-life insurance businesses. Market and credit risks include (i) equity risk, (ii) real estate risk, (iii) interest rate risk, (iv) credit spread risk, (v) counterparty default risk and (vi) foreign exchange risk.
  - Separate account businesses. The separate account businesses are those in which the policyholder bears the market and credit risk. NN Group's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (VA) portfolio, (ii) the group pension business in the Netherlands for which guarantees are provided, and (iii) other separate account business, primarily the unit linked business.
- ***Liquidity risk***. Liquidity risk is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner.
- ***Operational risk***. Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.
- ***Compliance risk***. Compliance risk is the risk of impairment of NN Group's integrity. It is a failure (or perceived failure) to comply with NN Group's Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

ECONOMIC CAPITAL

Economic capital is NN Group's internal measurement of the amount of capital required for the risks that NN Group is exposed to through its balance sheet, its business and its daily operations.

Risk management continued

NN Group determines economic capital as the amount of additional assets it must hold above the market value of its liabilities in order to withstand adverse movements in one year, based on a 99.5% level of confidence and before any adjustment for tax impact. A 99.5% level of confidence means that NN Group would be able to fulfil its obligations to its policyholders without requiring additional capital in 199 out of 200 annual scenarios. NN Group's economic capital is calculated in three steps.

- In the first step, NN Group models the market and credit risks to which NN Group's balance sheet is exposed using 50,000 stochastic real-world scenarios over a one-year time horizon, which are calibrated to historically observed market data. The model then quantifies the extent to which NN Group's assets must exceed its liabilities to ensure it is able to fulfil its policyholder obligations at a 99.5% level of confidence. This constitutes the economic capital for market and credit risk.
- In the second step, NN Group models insurance and business risk by defining stress scenarios at a 99.5% confidence interval using empirical data, when available, and expert judgement on the characteristics of NN Group's portfolio. With regards to longevity and expense risk, these stress scenarios are measured over a multi-year horizon. Mortality, morbidity, and property and casualty (P&C) risks are measured over a one-year horizon. These measurements are made at the individual business unit level and are modelled to capture the offsetting of certain risks, which occurs where certain risk events preclude the possibility of others. For example, if risk capital is based on the risk event that people will live longer (longevity risk), then the risk event that the same people will die earlier (mortality risk) is precluded. These risks are also aggregated with each other, as well as with the market and credit risk calculated in step one, using correlations based on expert judgement. As a result of this aggregation, the economic capital for the aggregate risk is less than the sum of the economic capital for the individual risks because the probability of all of the various risks materialising concurrently is less than 0.5%. This difference is the diversification benefit, reflecting the benefits of NN Group's risk pooling.
- In the third step, NN Group adds economic capital for operational risks and for business units that are not reflected in the internal model, without recognising any further diversification benefit. The economic capital for operational risk is based on the draft of the standard formula set out in Solvency II. Certain business units do not form part of NN Group's internal model. Depending on the type of business, the economic capital for these business units is approximated using commercial capital requirements, the Insurance Group Directive, local regulatory capital requirements or IFRS equity net of intangibles. See *"-Economic capital for entities outside of NN Group's internal model"*.
- NN Group's internal model uses, among others, statistics, observed historical market data, insurance policy terms and conditions, and NN Group's own judgment, expertise and experience, and includes assumptions as to the levels and timing of payment of premiums, benefits, claims, expenses, interest rates, credit spreads, investment portfolio performance (including equity market and debt market returns), longevity, mortality, morbidity and product persistency, and customer behaviour (including with respect to surrenders or extensions). NN Group follows strict governance, periodically revisiting these assumptions and regularly challenging them. NN Group also models risk to regulatory capital and IFRS results using models. As such, NN Group's economic capital calculations and risk sensitivities should be considered as estimates.

The table below sets out NN Group's economic capital by risk category as at 31 December 2013 and 2012, respectively.

Economic capital by risk category

	2013	2012
Insurance risk	**1,697**	1,918
Business risk	**2,128**	2,539
Market and credit risk:		
– General account	**3,211**	3,214
– Separate account	**964**	930
Diversification benefit between risk categories	**–2,505**	–2,783
Total modelled risk insurance operations	**5,495**	5,818
Operational risk	**531**	566
Economic capital of other business; NN Bank, IIM units on local required capital levels and other non-modelled	**988**	2,335
Total	**7,014**	8,719

The following sections will explain the risk profile, risk mitigation and risk measurement of all the categories above except for the diversification benefits between the different risk categories. Diversification benefits are recognised both on the risk category level (reflecting, for instance, diversification benefits between different countries, and diversification benefits between different risks within a particular risk category), as well as diversification benefits between risk categories. The diversification benefit between insurance risk, business risk, and market and credit risk of both the separate and general account decreased from 2012 to 2013. Insurance and business risks diversify well with each other and also with the market and credit risks, and in 2013 the reduced exposure to insurance and business risk resulted in an overall lower diversification benefit for NN Group.

Risk management continued

The overall economic capital for NN Group decreased by over EUR 1.7 billion from 2012 to 2013 primarily because NN Group sold most of the Asian business units. This is further explained in the “Economic capital for entities outside NN Group’s internal model” section.

Impact of scope change on economic capital for 2012

The 2012 economic capital numbers have been updated to reflect the change in scope from Insurance Europe as reported in the 2012 Annual Report to numbers comparable to those reported for 2013.

Economic capital 2012 comparable in scope to 2013

	2012
As reported for ING Insurance EurAsia (excluding discontinued operations) in 2012	5,868
Changes in model and methodology	438
Include Japan Life and Japan Closed Block VA as modelled business after diversification	689
Include the other Asian held-for-sale business units as unmodelled business	1,504
Include legacy units and holding as unmodelled business	220
Economic capital for 2012 for NN Group	8,719

In 2013, NN Group continued to refine and update the internal model to prepare for the Solvency II Directive, increasing economic capital by EUR 438 million. Modelling changes included updates to the correlation matrix and a more granular modelling of asset risk.

Also, Japan Life and Japan Closed Block VA businesses were classified as discontinued operations until 4th quarter 2013 and therefore were not included in the scope of NN Group’s 2012 risk disclosures. The scope of the current disclosure includes the Japan Life and Japan Closed Block VA businesses, which were modelled using the internal model after diversification. The Asian held for sale insurance businesses for which transactions have been concluded during 2013 are included in the adjusted 2012 figures using 150% of the Solvency I requirements. The economic capital of other entities that are part of NN Group but were not reported in 2012 as part of ING Insurance Eurasia have been approximated with IFRS equity, as they were held for sale.

Solvency II

In 2013 NN Group continued the internal model pre-application process with regulators in order to ensure the model is approved as an internal model under the Solvency II regulations and is fit for local use in all of its regulated entities. Over the course of 2014, NN Group intends to move its economic capital calculations to full Solvency Capital Requirements (**SCR**), in accordance with the current draft of the Solvency II Directive. Differences in the calculation of SCR compared to current calculations of economic capital can arise from Omnibus II Directives, in particular related to long term guaranteed business. NN Group’s economic capital ratio, calculated as available financial resources/economic capital will be adjusted to own funds/SCR.

The table below provides a summary of the largest expected differences in the calculation methodology of available and required capital from the current internal methodology to Solvency II, as interpreted by NN Group. Several of the Solvency II items have not yet been defined well enough to provide a reliable estimate of the impact, but each one could potentially be material.

Risk management continued

	Available capital		Required capital	
	Current Available financial resources	**Solvency II Own funds**	**Current Economic capital**	**Solvency II capital requirement (SCR)**
Last liquid point [(1)]	20 years	20 years	30 years	20 years
Illiquidity adjustment	Illiquidity premium	Volatility balancer / matching adjustment	Illiquidity premium	Volatility balancer / matching adjustment
After-tax	No	Yes	No	Yes
Credit risk adjustment	No	Yes	No	Yes
Contract boundaries [(2)]	Internal model	Solvency II regulation	Internal model	Solvency II regulation
Loss absorption of taxes and fungability	Full capital fungability assumed	After tax and fungability is restricted	Full capital fungability assumed	Test the loss absorption capacity
Risk Margin	Market Value Margin based on internal approach	Less diversify-cation recognised than internal approach	Not applicable	Not applicable
Supervisory Action	Not applicable	Not applicable	Not applicable	Potential for capital add-on

(1) The last liquid point is the last point on the swap curve considered to be liquid and is used to define the discount rate under Solvency II.
(2) The future date at which a policy may be terminated or varied in such a way that, pursuant to the expected requirements of Solvency II, cash flows from premiums may not be recognised.

INSURANCE RISK

Insurance risks are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.

Risk profile

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements. While NN Group is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business in the Netherlands is significantly larger than the mortality risk in the other businesses, not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like available financial resources and available regulatory capital in the Netherlands. Longevity risk exposes NN Group primarily to mortality improvements and the present value impact is larger when interest rates are low.

NN Group’s morbidity risk lies in health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), or pays for expenses of medical treatment related to certain illness or disability events. The main exposures to morbidity risks within NN Group are the disability insurance policies underwritten in Netherlands Non-Life, the health and accidental death covers within the Corporate Owned Life Insurance business in Japan Life, and the healthcare insurance business in Greece.

The Netherlands Non-Life portfolio also includes Property & Casualty products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities.

Risk mitigation

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

By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract, and both life and non-life risk, NN Group reduces the likelihood that a single risk event will have a material impact on NN Group’s financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Group underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Group’s underwriting standards, product design requirements, and product approval and review processes.

Insurance risks are diversified between business units. Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

- tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk; for instance, every year Netherlands Non-Life and ING Re reinsure windstorm catastrophe risks. As windstorm risk diversifies well with other risks taken by NN Group, from 2014 NN Group has increased its tolerance level for this risk and decreased the re-insurance cover for windstorm catastrophe risk;
- tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics;
- reinsurance is used to manage risk levels (such as morbidity reinsurance in the COLI business in Japan Life). Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Group, and;
- NN Group participates in industry pools in various countries to mitigate the risk from terrorism.

Risk measurement

The table below sets out NN Group's economic capital for insurance risk as at 31 December 2013 and 2012, respectively.

Economic capital for insurance risk

	2013	2012
Mortality (including longevity)	**1,556**	1,805
Morbidity	**380**	385
P&C	**429**	367
Diversification benefit	**–669**	–639
Total	**1,696**	1,918

The economic capital for insurance risks is dominated by mortality risk, in particular by longevity risk in the Netherlands pension business. The economic capital amount related to longevity risk is also highly sensitive to the level of interest rates. The decrease in the mortality risk capital was mainly caused by a decrease in longevity risk capital because of the increase of the discount curve in 2013 and by surrenders and contract changes of defined benefit pension contracts. The morbidity risk is primarily due to Netherlands Non-Life illness and disability contracts, as well as Netherlands Life and Japan Life.

The P&C risk is primarily underwritten by Netherlands Non-Life and partially reinsured by ING Re. The higher windstorm catastrophe risk retention level for 2014 resulted in an overall increase in economic capital for P&C risk.

BUSINESS RISK

Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.

Risk profile

Policyholder behaviour risk

Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Group. Depending on the terms and conditions of the insurance policy and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. As a result, over the life of an insurance policy, a policyholder may seek to change the terms of that policy, and NN Group may consult with the relevant customer with a view to verifying that the relevant policy remains suitable for the policyholder, sometimes resulting in changes to the relevant insurance policy. Policyholder behaviour therefore affects the profitability of the insurance contracts. The risk that policyholders maintain their contracts longer than NN Group has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds, the pension business in the Netherlands, and the older higher interest rate guaranteed savings business in Europe. The risk that policyholders hold their contracts for a shorter period than NN Group has assumed relates to the life business in Japan and the unit linked businesses in the Central and Eastern European businesses.

Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers. For instance, changes in tax treatment may affect the tax efficiency of the products of the Japan Life corporate-owned life insurance (**COLI**) business.

The available regulatory capital in the Netherlands and the economic capital calculations for policyholder behaviour risk take into account the present value impact of changes in assumptions.

A change in policyholder behaviour assumptions would result in an immediate change in the present value of the liabilities used to determine Available Financial Resources, IFRS result before tax for variable annuities, and available regulatory capital in the Netherlands.

Risk management continued

Expense risk
Total administrative expenses for NN Group in 2013 amounted to EUR 1,842 million. Part of these expenses is variable, depending on the size of the business and sales volumes, and part are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of NN Group's expenses, and is the risk that actual per policy expenses in the future exceed the assumed per policy expenses. A significant portion of the fixed expenses is incurred in the closed block operations of Netherlands Life, where NN Group is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase.

A change in expense risk assumptions, though it would be reflected over time through IFRS result before tax, would result in an immediate change in the present value of the liabilities used to determine Available Financial Resources and available regulatory capital in the Netherlands.

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

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

Expense risk
Several initiatives have been put in place to manage expenses, such as the restructuring of Netherlands Life and NN Group's head office in the Netherlands. These initiatives also seek to convert fixed expenses into variable expenses so that expenses vary in accordance with the size of the in-force portfolio. This is particularly relevant for the closed blocks of business, the Dutch individual life and the Japan Closed Block VA businesses.

Risk measurement
The table below sets out NN Group's economic capital for business risk as at 31 December 2013 and 2012, respectively.

Economic capital for business risk

	2013	2012
Policyholder behaviour	**1,096**	1,400
Expense	**1,388**	1,663
Diversification benefit	**–356**	–525
Total	**2,128**	2,538

The main contributors to policyholder behaviour risk in 2013 are the corporate owned life insurance business in Japan Life, Netherlands Life, the unit linked business in Europe, and the Japan Closed Block VA. Economic capital for policyholder behaviour risk decreased due to the increase of the discount curve in Netherlands Life and the weakening JPY.

Over 80% of the expense risk capital is driven by Netherlands Life. The economic capital amount related to expense risk in Netherlands Life is sensitive to the level of interest rates, and the decrease in the expense risk capital was primarily attributable to the increase of the discount curve in 2013, together with a decrease in overall expenses.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated and therefore receive a benefit given the low likelihood that they will both occur concurrently.

Risk management continued

MARKET AND CREDIT RISK: GENERAL ACCOUNT

Market and credit risks are the risks related to the impact of financial markets on NN Group's balance sheet. In relation to market and credit risk, NN Group distinguishes between its general account and its separate account. The table below sets out NN Group's asset class market values for the general account as at 31 December 2013 and 2012 (in this table derivatives are excluded and specific risk management asset classifications and valuations are applied). 2012 figures are on a comparable basis to 2013.

General Account Assets

	Market value	% of total	Market value	% of total
	2013	**2013**	2012	2012
Fixed income	**79,473**	**83%**	79,104	83%
Government bonds	**44,251**	**46%**	50,831	53%
Financial bonds	**4,452**	**5%**	5,845	6%
Corporate bonds	**6,453**	**7%**	7,503	8%
Asset Backed Securities	**7,199**	**7%**	7,267	8%
Mortgages	**14,218**	**15%**	5,398	6%
Other Loans	**2,900**	**3%**	2,260	2%
Non-Fixed income	**10,436**	**11%**	10,017	10%
Common & Preferred Stock	**2,500**	**3%**	2,087	2%
Private Equity	**943**	**1%**	855	1%
Mutual Funds	**2,336**	**2%**	2,020	2%
Real Estate	**4,657**	**5%**	5,055	5%
Cash	**6,749**	**7%**	6,778	7%
Total Investments	**96,658**	**100%**	95,899	100%

The economic capital for the fixed income bonds is calculated within spread risk and the economic capital for the fixed income loans (to the extent applicable) within counterparty default risk. For the non-fixed income assets, equity and real estate, NN Group uses asset-specific risks to calculate economic capital.

The table below sets out NN Group's economic capital for the general account as at 31 December 2013 and 2012, respectively.

Economic capital general account

	2013	2012
Equity risk	**1,406**	1,162
Real estate risk	**744**	807
Interest rate risk	**262**	194
Credit spread risk net of illiquidity premium offset	**2,234**	2,521
Foreign exchange risk	**213**	377
Inflation risk	**51**	8
Counterparty default risk	**519**	354
Diversification benefit	**–2,219**	–2,208
Total	**3,210**	3,215

Market and credit risk of the general account is dominated by credit spread and equity risk. Whilst there were significant movements in the underlying risks, overall the economic capital for market and credit risk remained fairly stable. The inflation risk relates to the disability business of Netherlands non-life.

The following sections provide more detail per risk type.

Equity risk

Equity risk in the general account is due to impact of changes in prices of directly held equities and equity derivatives such as futures and options.

Risk profile

The table below sets out NN Group's general account equity assets as at 31 December 2013 and 2012, respectively.

Risk management continued

General accounts equity assets		
	2013	2012
Common & Preferred Stock	**2,500**	2,087
Private Equity	**943**	855
Mutual Funds	**2,336**	2,020
Total	**5,779**	4,962

Overall equity exposure increased due to positive revaluations and net purchases of equities in line with strategic asset allocation.

The equity investments held in the Netherlands are part of the so-called "5% holdings", in which investors who hold 5% or more of the outstanding shares of a stock receive favourable tax treatment in the Netherlands. About EUR 2.3 billion is invested in these 5% holdings. For these equity investments, NN Group may not be able to liquidate its position quickly because of the size of these holdings.

NN invests in private equity through its holding of Parcom Capital Management. Parcom Capital Management is a captive mid-market private equity firm active in the Netherlands, France and Germany.

Price changes in equity holdings and equity-related derivatives are directly reflected in Available Financial Resources, the IFRS balance sheet and in the regulatory available capital in the jurisdictions in which NN Group has general account equity holdings. Only value movements of derivatives and impairments of equity holdings are reflected in the IFRS result before tax.

Risk mitigation
Equity exposures belong to a well-diversified asset portfolio of an insurance company with long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

From time to time, NN Group protects the downside risk of the general account equity portfolio by buying put options and other hedge instruments. The most recent occasion on which NN Group did so was during the euro crisis in 2011-2012.

Risk measurement
Economic capital for equity risk in the general account increased from EUR 1,162 million in 2012 to EUR 1,406 million in 2013. This exposure includes mutual funds with both fixed income and equity underlying positions. On a look-through basis in the overall exposure, the weighting of equities, which requires a higher economic capital than fixed income investments, increased due to stock market developments.

Real estate risk
Real estate risk is the risk of loss of market value of real estate assets due to a change in rental prices, required investor yield, or other factors.

Risk profile
NN Group's general account real estate exposure decreased from EUR 5,055 million at 31 December 2012 to EUR 4,657 million as at 31 December 2013. The real estate exposure is mainly present in Netherlands Life and Netherlands Non-Life. NN Group has two different categories of real estate: (i) investments in real estate funds and real estate directly owned, and (ii) investments in buildings occupied by NN Group. Several of the real estate funds owned by NN Group include leverage and therefore the actual real estate exposure is larger than NN Group's positions in these funds. During 2013, the gross real estate exposure decreased mainly as a result of market value decreases.

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

The table below sets out NN Group's real estate exposure by sector type excluding leverage as at 31 December 2013 and 2012, respectively. Real estate is valued at fair value in the economic capital model and the available regulatory capital calculations in the Netherlands. Fair value revaluations of 53% of the real estate portfolio directly affect the IFRS result before tax.

Risk management continued

General Account real estate assets by sector

	Revalued through P&L	Not revalued through P&L	Revalued through P&L	Not revalued through P&L
	2013	**2013**	2012	2012
Residential	**3%**	**17%**	2%	17%
Office	**10%**	**9%**	14%	10%
Retail	**30%**	**9%**	28%	7%
Industrial	**9%**	**0%**	8%	0%
Other	**2%**	**12%**	3%	11%
Total	**54%**	**47%**	55%	45%

Risk mitigation
Real estate exposures belong to a well-diversified asset portfolio of an insurance company holding long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement
Economic capital for real estate risk decreased from EUR 807 million at year-end 2012 to EUR 744 million at year-end 2013 due to reduced real estate exposures and lower leverage in the real estate funds.

Interest rate risk
Interest rate risk is the impact of interest rate changes on available capital as a result of the associated change in the value of the assets and liabilities. NN Group generally uses swap curves as benchmark interest rate curves when assessing interest rate risk.

Risk profile
The table below provides an overview of NN Group's general account undiscounted policyholder liability cash flows (net of expenses and commissions) by maturity.

General account liabilities' annual undiscounted cash flows (net of expenses and commissions) (1)

	Liabilities originated in					
	Eurozone EUR		Japan JPY(2)		Other Currencies(2)	
Maturities	**2013**	2012	**2013**	2012	**2013**	2012
1	**–4,627**	–4,010	**222**	138	**–183**	–143
2	**–4,148**	–3,971	**–84**	–174	**–177**	–306
3	**–5,235**	–4,317	**–307**	–329	**–168**	–209
3-5	**–7,452**	–7,356	**–870**	–938	**–352**	–561
5-10	**–15,076**	–15,109	**–2,204**	–2,285	**–786**	–927
10-20	**–23,545**	–23,219	**–2,357**	–2,718	**–1,087**	–1,208
20-30	**–15,422**	–15,977	**–907**	–973	**–413**	–489
30+	**–14,752**	–16,976	**–577**	–515	**–82**	–95
Total	**–90,257**	–90,935	**–7,084**	–7,794	**–3,248**	–3,938

(1) The "minus" sign in the table mean cash outflow from NN Group to the policyholders
(2) Japan and Other liabilities are presented at constant FX of 31December 2013. Other includes CZK, HUF, PLN, RON and USD.

To effectively match its assets to liabilities, NN Group looks at the undiscounted liability cash flows and then determines which assets to purchase to reduce interest rate risk. As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows, which relate primarily to the pension business in the Netherlands.

Liability valuations depend on the discount rate applied and are sensitive to movements in that discount rate, particularly given that approximately one third of the liability cash outflows occur from year 20. Different policyholder liability discount rates apply depending on the accounting or regulatory framework; thus, the interest rate risk differs by accounting regime.

- ***IFRS result before tax***. Under IFRS-EU, NN Group values its general account policyholder liabilities using a discount rate that is set when the policies are sold, and subjects them to a reserve adequacy test using current interest rates. As a result, changes in interest rates do not affect IFRS earnings through liability valuations, unless the adequacy of the reserves of a segment falls below the 50th percentile level. As of 1 January 2014, NN Group's reserves for all segments are adequate at the 90th percentile. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded as amortised cost value. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates. See "-IFRS result before tax sensitivities".
- ***Available regulatory capital (outside the Netherlands)***. For the purposes of available regulatory capital in all jurisdictions outside the Netherlands in which NN Group operates, general account policyholder liabilities are valued at a single discount rate set when the policies are sold. General account fixed income assets are typically held at the same value as is reported on the IFRS balance sheet, although in several jurisdictions such as Japan, Spain and Greece, certain assets can be held at amortised cost on the regulatory balance sheet. Changes in interest rates affect available regulatory capital in these jurisdictions when fixed income assets are valued at market value, and the liability valuations are insensitive to interest rate movements.
- ***Available regulatory capital (Netherlands).*** For the purposes of available regulatory capital in the Netherlands, general account policyholder liabilities are measured at fair market value based on the DNB swap curve. In 2013 NN Group moved from the discount curve based on the ECB AAA yield curve to the DNB swap curve, which, amongst other things, is more liquid and less subject to dislocations. Since mid-2012, the DNB curve has been adjusted to include an ultimate forward rate (**UFR**), extrapolating the curves beginning in year 20 to an ultimate forward rate of 4.2% at year 60. General account fixed income assets are held at market value, thereby creating interest rate sensitivities in the available regulatory capital, which are the same as the liability sensitivities for matching cash flows up to 20 years. However, mismatches occur for longer-term cash flows due to the application of the UFR.
- ***Economic capital***. To determine economic capital, NN Group uses a swap curve plus an illiquidity premium to discount the insurance liabilities. The illiquidity premium is treated as part of the credit spread risk. NN Group extrapolates the EUR swap curve from the 30 year point onwards to the UFR, as swap markets tend to be highly illiquid for durations longer than 30 years. To determine economic capital, all assets are valued at market value and therefore subject to interest rate risk. The economic capital for interest rate risk therefore primarily depends on the level of cash flow matching between assets and liabilities.

Risk mitigation

NN hedges its economic interest rate exposure by investing in long-term bonds matching liability maturities and further reduces the remaining interest rate gap through purchases of receiver swaps and swaptions. Interest rate risk is also mitigated through a disciplined pricing and renewal strategy in the Dutch corporate pensions business.

Risk measurement

The Economic capital for general account interest rate risk increased from EUR 194 million at year-end 2012 to EUR 262 million at year-end 2013. This economic capital is small relative to the general account insurance provisions, due to effective ALM and interest rate hedges. The increase in capital is modest for the total balance sheet size and reflects a small reduction in asset duration.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening due to increased default expectation, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the general account liabilities.

Risk profile

The nature of long-term insurance liabilities gives insurers the potential to hold fixed income assets even in adverse market conditions, thereby continuing to receive the coupons and the principal amount at maturity. Credit spread risk materialises in different ways depending on the different valuation curves used to discount assets and liabilities in order to determine these metrics.

Risk management continued

- ***IFRS result before tax***. Market value movements of general account fixed income assets do not impact the IFRS result before tax, as the assets are classified as available-for-sale. Therefore, there is no sensitivity to credit spread risk in IFRS result before tax. However fixed income securities might be subject to impairments under IFRS, affecting the IFRS result before tax.
- ***Available regulatory capital (outside the Netherlands)***. For the purposes of available regulatory capital in all jurisdictions outside the Netherlands in which NN Group operates, general account fixed income assets are typically held at the same value as is reported on the IFRS balance sheet, although in several jurisdictions such as Japan, Belgium, Spain and Greece, certain assets can be held at amortised cost on the regulatory balance sheet. In those cases where assets are held at fair, value credit spreads affect available regulatory capital through fixed income asset valuations, whereas the liability valuations are insensitive to credit spread movements.
- ***Available regulatory capital (Netherlands)***. On the regulatory capital balance sheet, general account fixed income assets are held at market value, thereby creating credit spread sensitivities in the available regulatory capital. The long duration of NN Group's fixed income assets amplifies the impact of credit spread sensitivities. By contrast, the liabilities are not sensitive to credit spread movements.
- ***Economic capital***. To determine economic capital, general account fixed income assets are held at market value, thereby creating credit spread sensitivities. Just as in the available regulatory capital (Netherlands), the long duration of NN Group's fixed income assets amplifies the impact of credit spread sensitivities for economic capital. The discount rate to value the insurance liabilities consists of the swap rate plus an illiquidity premium. NN Group uses the spreads of a covered bond index to determine the illiquidity premium at a given point in time. The fact that the bonds are fully collateralised means that there is limited credit risk in relation to these bonds. Any spread movements in the covered bond index therefore represent illiquidity related to demand and supply characteristics and/or market sentiment at any point in time. As NN Group does not invest in the covered bond index to back the general account liabilities, there can be mismatches between illiquidity experienced on NN Group's own assets and the illiquidity depicted by the covered bond index.

The table below sets out the market value of NN Group's general account fixed-income bonds which are subject to credit spread risk by type of issuer at 31 December 2013 and 2012, respectively.

General account fixed-income bonds by type of issuer (1)

	Market value		Percentage	
	2013	2012	**2013**	2012
Government Bonds	**44,251**	50,831	**71%**	71%
Asset Backed Securities	**7,199**	7,267	**12%**	10%
Financial Institutions	**4,452**	5,845	**7%**	8%
Utilities	**1,501**	1,815	**2%**	3%
Transportation & Logistics	**857**	449	**1%**	1%
Telecom	**795**	1,013	**1%**	1%
General Industries	**638**	591	**1%**	1%
Food, Beverages & Personal Care	**622**	675	**1%**	1%
Other Corporate and Financial Bonds	**2,040**	2,961	**3%**	4%
Total	**62,355**	71,447	**100%**	100%

(1) Bond values include accrued interest

NN primarily uses long-term bonds issued by central governments and other public agencies of governments to match its long term liabilities as such bonds are amongst the few tradable fixed income securities generating cash flows for 20 years and longer. The table below sets out the market value of NN Group's general account assets invested in government bonds by country and maturity.

Risk management continued

General account market value government bond exposures [1]

	Rating [2]	Domestic exposure [3]	Market value of government bond 2013 by number of years to maturity: 1	2	3	3-5	5-10	10-20	20-30	30+	Total 2013	Total 2012
Germany	AAA	0%	**155**	**70**	**115**	**331**	**263**	**3,288**	**4,215**	**153**	**8,590**	12,225
Netherlands	AAA	98%	**17**	**132**	**82**	**104**	**1,210**	**1,458**	**3,399**		**6,402**	7,183
France	AA+	0%	**64**	**100**	**44**	**108**	**265**	**276**	**2,472**	**2,197**	**5,526**	5,586
Belgium	AA	41%	**141**	**242**	**210**	**830**	**1,413**	**911**	**1,498**	**69**	**5,314**	4,739
Japan	AA-	99%	**276**	**68**	**128**	**331**	**1,425**	**1,740**	**837**	**294**	**5,099**	8,183
Austria	AAA	0%	**210**	**44**	**85**	**174**	**803**	**1,462**	**588**	**728**	**4,094**	3,937
Italy	BBB	0%	**21**	**109**	**21**	**63**	**178**	**880**	**124**	**5**	**1,401**	1,393
Multilateral	AAA	2%	**81**	**65**	**132**	**44**	**345**	**285**	**376**	**34**	**1,362**	719
Finland	AAA	0%	**7**	**16**	**14**	**49**	**343**	**355**	**324**		**1,108**	1,079
Spain	BBB-	65%	**3**	**25**	**14**	**60**	**46**	**513**	**387**		**1,048**	907
United States	AAA	0%	**39**	**401**	**31**	**190**	**51**	**4**	**177**		**893**	1,018
Others		46%	**227**	**264**	**364**	**524**	**1,010**	**676**	**348**		**3,413**	3,862
Total		37%	**1,241**	**1,536**	**1,240**	**2,808**	**7,352**	**11,848**	**14,745**	**3,480**	**44,250**	50,831

[1] Bond values include accrued interest.
[2] NN uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds
[3] Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.

Exposures to Dutch, German and French government bonds are primarily held by Netherlands Life. Of the EUR 15 billion German and Dutch government bonds held by NN Group, more than half will mature after year 20, and more than 80% of the EUR 5.5 billion French government bonds held by NN Group will mature after year 20. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. With regards to Central and Eastern Europe, government bond exposures in Poland, Czech Republic, Hungary, Slovakia, Romania, and Turkey are mainly domestically held). In 2011 and 2012, NN Group reduced its Greek, Italian, Spanish and French government bond exposures in response to the deteriorating credit ratings of these countries and to alleviate concentration risk. The remaining Greek government bonds are all held by NN Group's Greek business unit, and 65% of the Spanish government bonds are held by NN Group's Spanish business unit. During 2013, NN Group began reducing its German and Dutch government bond positions to invest in higher-yielding asset classes. It also began reducing its holdings of government bonds in Japan where such bonds were held for liquidity reasons.

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

General account market value non-government fixed income securities [1]

	Market value of non-government bond securities 2013 by number of years to maturity: 1	2	3	3-5	5-10	10-20	20-30	30+	Total 2013	Total 2012
AAA	**158**	**90**	**280**	**691**	**1,514**	**972**	**1,299**	**1,977**	**6,981**	6,732
AA	**238**	**140**	**300**	**323**	**620**	**549**	**320**		**2,490**	3,615
A	**348**	**472**	**700**	**880**	**1,344**	**465**	**410**	**95**	**4,714**	6,053
BBB	**321**	**248**	**291**	**411**	**692**	**405**	**149**	**648**	**3,165**	3,209
BB	**87**	**8**	**34**	**97**	**155**	**9**		**183**	**573**	616
B	**19**	**15**	**18**	**23**	**26**		**57**		**158**	226
CCC								**6**	**6**	161
Other	**1**				**12**	**2**			**15**	2
Total	**1,172**	**973**	**1,623**	**2,425**	**4,363**	**2,402**	**2,235**	**2,909**	**18,101**	20,614

[1] Bond values include accrued interest.

The table below sets out NN Group's holdings of asset-backed securities by market value of asset type and the percentage of NN Group's total general account asset-backed securities portfolio as at 31 December 2013 and 2012, respectively.

Risk management continued

General Account Asset-backed securities	Market value 2013	% of total 2013	Market value 2012	% of total 2012
RMBS	**3,822**	**53%**	4,356	60%
Car loans	**1,848**	**26%**	1,415	19%
Credit cards	**463**	**6%**	382	5%
CMBS	**358**	**5%**	343	5%
Student loans	**251**	**3%**	318	4%
SME loans	**233**	**3%**	227	3%
Consumer loans	**117**	**2%**	134	2%
Other	**106**	**1%**	91	1%
Total	**7,198**	**100%**	7,266	100%

Risk mitigation
NN aims to maintain a low-risk, well diversified credit portfolio. NN Group has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN Group has increased its investments in non-listed and own-originated assets. Going forward, the volatility in NN Group's credit spread risk will continue to have possible short term negative effects on the balance sheet. However, in the long run, these investments will back the long-dated and illiquid liabilities well. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement
The economic capital for credit spread risk reflects, with 99.5% level of confidence, the maximum amount of capital needed to absorb the impact of spreads widening. Credit spreads are stressed depending on the assets with regard to the credit rating, duration, and region, to determine the economic capital for spread risk. Furthermore, the illiquidity premium on the liabilities is stressed to dampen the impact of credit spread stresses.

The table below sets out NN Group's general account economic capital for credit spread risk.

General accounts economic capital for credit spread risk	2013	2012
Credit spread risk assets	**5,617**	5,718
Illiquidity premium offset	**–3,383**	–3,197
Total Credit Spread risk net of illiquidity premium offset	**2,234**	2,521

Counterparty Default risk
Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Group. The economic capital for counterparty default risk is primarily based on the associated issuer's probability of default (**PD**) and the estimated loss-given-default (**LGD**) on each individual asset combined with diversification across assets. Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Risk profile
Counterparty default risk emanating from residential mortgages and policy loans (retail credit risk) represent the majority of the portfolio of economic capital for counterparty default risk.

Loans form a relatively small source of credit risk for NN Group (as compared to bonds). Other sources of credit risk include the claims on counterparties from over-the-counter derivatives, money market exposures and reinsurance.

General account mortgages, reinsurance and loans and advances	2013	2012
Mortgages	**14,218**	5,398
Reinsurance	**331**	348
Other loans	**2,900**	2,260
Cash	**6,749**	6,778
Total	**24,198**	14,784

Risk management continued

NN Group has notably increased its exposure to Dutch residential mortgages during the course of 2013, both at NN Bank as well as Netherlands Life. In the third quarter, EUR 4.7 billion of Dutch residential mortgage loans were transferred from Westland Utrecht Bank (WUB) to NN Bank's mortgage loan portfolio. In the fourth quarter of 2013, Netherlands Life's exposure to residential mortgages also increased, with the transfer of EUR 2.6 billion residential mortgages from ING Bank to Netherlands Life. As of 31 December 2013, the total general account risk exposure to mortgages is EUR 6.23 billion for NN Bank and EUR 7.99 billion for Netherlands Life.

Risk mitigation

NN Group uses different credit risk mitigation techniques. For retail lending portfolios, mortgages on the house, pledges of insurance policies, or retaining the investment accounts of clients are all important elements of credit risk mitigation. For OTC derivatives, the use of ISDA master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average indexed loan to value, at NN Bank and Netherlands Life stands at 92% and 96% respectively. The perceived high LTV is due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2013 with regards to mortgage interest deductibility, a shift from essentially interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 26% and 20% at NN Bank and Netherlands Life respectively at 31 December 2013.

The credit portfolio is under constant review to ensure troubled assets are identified early and managed properly. With regards to (mortgage) loans, all loans with past due financial obligations of 90 days or more are classified as non-performing loans (NPLs). All loans not classified at initial recognition as being either (1) assets at market value through profit-and-loss, (2) assets held for trading, or (3) assets available-for-sale are measured against amortised cost value and are subject to impairment review. For bonds and other fixed income securities, criteria for impairment include (but are not limited to) expected and actual credit losses resulting from e.g. failure to pay, market information regarding expected and actual credit losses, as well as other evidence that the issuer/borrower will be unable to meet its financial obligations. Material breaches in financial covenants can also trigger the reclassification of a loan as being impaired.

Credit quality: NN Group mortgage loan portfolio, outstanding

	Netherlands Life		NN Bank	
	2013	2012	**2013**	2012
Performing mortgage loans	**7,769**	5,107	**6,118**	136
Past due mortgage loans (1–90 days)	**185**	129	**93**	2
Non-performing mortgage loans (more than 90 days past due)	**37**	24	**17**	0.5
Total	**7,991**	5,260	**6,228**	139

If a payment of interest or principal is more than one day late, the loan is considered "past-due". If the arrear still exists after 90 days, the loan is categorised as non-performing loan. It keeps this status until the arrear is resolved. Of the mortgage loans that are past-due, 68% have been past-due for 1-30 days.

Aging analysis (past due but not impaired): NN Group mortgage portfolio, outstanding

	Netherlands Life		NN Bank	
	2013	2012	**2013**	2012
Past due for 1–30 days	**125**	96	**64**	2
Past due for 31–60 days	**42**	23	**22**	0
Past due for 61–90 days	**19**	10	**8**	0
Total	**186**	129	**94**	2

Risk measurement

The economic capital backing NN Bank's portion of the mortgage exposure is accounted for in non-modelled business because NN Bank applies Basel II for capital purposes (see "-Economic capital for entities outside NN Group's internal model"). The economic capital backing the Netherlands Life's portion of the mortgages is calculated in the counterparty default risk. The total mortgage exposure is managed at company level and included in the tables above.

Economic capital for counterparty default risk increased from EUR 354 million at year-end 2012 to EUR 519 million at year-end 2013. This increase is mainly due to the increased residential mortgage portfolio at Netherlands Life. As noted, related economic capital for fixed income bonds is included fully in credit spread risk.

Risk management continued

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

Risk profile
FX transaction risk can occur on a local entity level, while FX translation risk can occur when items included in the financial statements of each of NN Group's entities are measured using the country's functional currency instead of NN Group's reporting currency, the Euro.

Risk mitigation
The FX risk at the local entity level is mitigated by limiting investment to the local currency assets. The exceptions are Japan Life, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts and in the large general account portfolio of Netherlands Life. The FX risk at the holding level is managed using FX forward contracts.

Risk measurement
Economic capital for foreign exchange risk decreased from EUR 377 million at year-end 2012 to EUR 213 million at year-end 2013 primarily due to the weakening of the yen in 2013.

MARKET AND CREDIT RISK: SEPARATE ACCOUNT

The separate account businesses are those in which the policyholder bears the majority of the market and credit risk. NN Group's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (VA) portfolio, (ii) the group pension business in the Netherlands for which guarantees are provided, and (iii) other separate account business, primarily the unit linked business.

Variable annuity portfolio
Risk profile

Variable annuity business overview 2013

	Number of policies	Account value [1]	Net Amount at Risk [2]	Additional IFRS Reserve for Guarantees	Average Remaining Years
Variable Annuity Japan GMAB	**299,563**	**11,575**	**458**	**811**	**3.2**
Variable Annuity Japan GMDB [3]	**46,743**	**3,112**	**205**	**57**	**7.1**
Variable Annuity Europe	**40,931**	**1,238**	**33**	**25**	**7.2**

(1) The Account value is the value of the underlying funds which belong to the policyholder.
(2) The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.
(3) The Additional IFRS reserve for the guarantees backing the GMDB block as of 1 January 2014 is EUR219 million higher (total EUR 276 million) due to the application of fair value accounting.

Variable annuity business overview 2012

	Number of policies	Account value [1]	Net Amount at Risk [2]	Additional IFRS Reserve for Guarantees	Average Remaining Years
Variable Annuity Japan GMAB	317,402	13,150	2,841	3,064	4.2
Variable Annuity Japan GMDB [3]	60,050	3,744	1,346	253	9.5
Variable Annuity Europe	44,30	1,147	47	78	7.5

(1) The Account value is the value of the underlying funds which belong to the policyholder.
(2) The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.

Risk management continued

From a risk management perspective, NN Group distinguishes three blocks of variable annuities:

- ***Guaranteed minimum accumulation benefit* (GMAB) *products of Japan Closed Block VA*:** Under this type of variable annuity, a minimum guaranteed benefit is paid upon death or at maturity of the policy at the end of the initial investment period. The survival guarantee is only available up until the original policy term, mainly 10 years, and cannot be changed. The minimum guaranteed benefit is either a single premium or an amount which may lock-in at a higher guarantee level depending on the product. The GMAB product was sold from 2005 until 2009 in Japan through banks and security brokers. The guarantees of this product were highly in the money but with the improving stock markets in Japan and the weakening of the JPY, have moved closer to at-the-money. The volatility risks of the options and guarantees increase when the option is at the money and closer to maturity.
- ***Guaranteed minimum death benefit* (GMDB) *products of Japan Closed Block VA***: Under this type of variable annuity, a minimum guaranteed benefit is paid upon the death of the policyholder. The GMDB product has a generally predefined term of 10 years and provides the option to extend the guarantee of the policy during the investment phase up to age 90, and in the case of some policies, also allow further extension to whole of life. At death, the product pays a maximum of the guaranteed value and the account value. During the insured period, the client can receive the maximum of the minimum guaranteed benefit and the account value at death or at survival after the term of the product. There are different funds underlying the policyholder account value, including Japanese equity, Japanese bond, global equity and global bond funds. The value of the minimum guarantee depends on the level and volatility of equity, bond and foreign exchange markets.
- ***VA products of Insurance Europe***: NN Group has been selling VA products in Europe since 2008, including in Belgium, Italy, Luxembourg, Poland, Spain and Hungary. The products mostly have minimum guaranteed living benefits such as survival benefit or withdrawal benefits.

The number of policies in the Japan Closed Block VA will have decreased by more than 86% by the end of 2019, driven by the maturity of the GMAB products.

Risk mitigation

NN has hedging programs in place for the Japan Closed Block VA business and the European variable annuity business. These hedging programs target equity, interest rate, and FX risks. The market risks that remain for the Japan Closed Block VA business are increases to market volatility, both implied and realised, and basis risk. Basis risk is the difference in market movements between the benchmarks used for hedging and the actively managed funds in the separate account. The table below sets out the estimated changes in the value of these options and guarantees, and the corresponding estimated changes in the value of the assets hedging this portfolio for the years ended 31 December 2009 through 2013 with regard to the Japan Closed Block VA.

Closed Block VA Japan Asset and Liability Movements

	2013	2012	2011	2010	2009
Change in Value of Policyholder Guarantee	**2,411**	1,652	–748	–481	543
Change in Value of Hedge Assets	**2,367**	1,482	–582	–537	458
Economic Hedge Result	**44**	170	–166	56	85

The change of the value of the policyholder guarantees depends on market movements. The value of the Japan Closed Block VA guarantees, which was considerable at year-end 2008 due to the credit crisis, moved significantly over the past years, decreasing in 2012 and 2013 as a result of the economic stimulus packages in Japan. In 2008 the hedge program was not yet fully developed and was therefore only partially able to follow strong market movements, resulting in significant hedge losses. Hedge losses were incurred in 2011 as well, partially attributable to significant spread movements that were not hedged in 2011.

Separate account guaranteed group pension business in the Netherlands
Risk profile

Separate account guaranteed group pension business in the Netherlands

	2013	2012
Account value	**10,858**	12,487
Additional IFRS reserve for guarantee	**606**	744

In the Dutch separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded the contract with NN Group. Regardless of actual returns on these investments, NN Group guarantees pension benefits for the beneficiaries under the contract. Contracts are typically re-negotiated every five years, but the guarantee obligations to the beneficiaries survive termination of the contract with the sponsor employer unless otherwise agreed.

Risk management continued

The sponsor employer selects the investments based on a basket of equity and fixed income instruments and real estate and pays a fee for the guarantee. The value of the guarantee that NN Group provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

Risk mitigation
NN currently hedges the value of the guarantees it provided under group pension contracts in the Netherlands. For this purpose, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge program includes equity basket options, swaps and equity futures. Upon contract renewal, NN Group offers policyholders defined contribution products with investments in portfolios that NN Group can more easily hedge, thus reducing the risk to NN Group. As of August 2013, NN Group aims to hedge the full economic risk of the guarantee provided. Before August 2013, the hedge was aimed at mitigating a combination of IFRS earnings volatility and regulatory capital volatility.

Other separate account business
Risk profile
The other separate account business primarily consists of unit linked insurance policies, which provide policyholders with fund selection combined with an insurance cover. In a unit linked policy, the investment risk is borne by the policyholder, although there are some unit linked products where NN Group has provided guarantees on the performance of specific underlying funds. Unit linked products without guarantees do not expose NN Group to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds.

Risk mitigation
The market risks of the unit linked and other separate account business are managed at the design of the product. Currently NN Group does not hedge the market risks related to the present value of future fee income derived from this business.

Risk measurement
NN determines economic capital for the market and credit risks of the separate account business in aggregate through direct modelling or applying a hedge effectiveness ratio.

The table below sets out the economic capital for the market and credit risk of the separate account businesses as at 31 December 2013 and 2012, respectively.

Economic capital for the separate account businesses

	2013	2012
Variable annuity	**591**	812
Separate account guaranteed group pension business in the Netherlands	**264**	101
Other separate account business (unit linked)	**217**	187
Diversification benefit	**–108**	–170
Total	**964**	930

The decrease in the variable annuity economic capital was due to a weakening JPY over the course of 2013. The increase in economic capital in the group pension business in the Netherlands was mainly due to changes in the hedging position over the course of the year. Considering that the size of the group pension business in the Netherlands is EUR 10.9 billion, the overall risk on this portfolio remains relatively low and well-hedged. The increase in assets under management of the funds underlying the other separate account business resulted in a higher present value of future fee income and therefore higher risk capital related to this future fee income.

LIQUIDITY RISK
Liquidity risk is the risk that one of NN Group’s entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due.

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

RISK MITIGATION

NN Liquidity Management Principles include the following:

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

NN defines three levels of Liquidity Management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. Two types of liquidity crisis events can be distinguished: a market event and an NN Group specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Group does not hold a specific economic capital for liquidity risk in its insurance economic capital model as liquidity is sufficiently available in the insurance business units.

OPERATIONAL RISK

RISK PROFILE

Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The operational risk management areas can be defined as given below:

- ***Control and processing risk***: the risk due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing.
- ***Fraud risk***: the risk of loss due to abuse of procedures, systems, assets, products or services of NN Group by those who intend to unlawfully benefit themselves or others.
- ***Information (technology) risk***: the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability.
- ***Continuity and security risk***: the risk of threats that might endanger the continuity of business operations and the security of our employees.
- ***Unauthorised activity risk***: the risk of *misuse* of procedures, systems, assets, products and services.
- ***Employment practise risk***: the risk of loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events.

RISK MITIGATION

For operational risk NN Group has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

Operational risk assessments are done not only based on historic data but also on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

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

NN conducts regular risk and control monitoring to measure and evaluate the effectiveness of the key risks and key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards.

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

Risk management continued

Risk measurement

NN Group's economic capital for operational risk was EUR 531 million and EUR 566 million as at 31 December 2013 and 2012, respectively. The economic capital is calculated based on the standard formula for Solvency II. As it is additive to the total economic capital, then it should be considered as net of diversification with other NN Group risks.

COMPLIANCE RISK

RISK PROFILE

Compliance risk is the risk of impairment of NN Group's integrity. It is a failure (or perceived failure) to comply with NN Group's Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

RISK MITIGATION

NN Group's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The compliance function works with a scorecard process to annually evaluate the level to which the compliance risk management framework is embedded in each business. NN Group continuously enhances its compliance risk management program to ensure that NN Group complies with international standards and laws.

NN Group separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. In addition to effective reporting systems, NN Group has a whistle blower procedure which protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or business principles. NN Group also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, Chinese walls and confidential and inside information, as well as a code of conduct for its personnel.

NN is fully committed to complying with all applicable sanction legislation and with all obligations and requirements under those applicable laws, including freezing and reporting obligations with regard to transactions involving a U.S., EU or UN sanction target. Furthermore, NN Group designates specific countries as ultra high risk and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Certain exceptions on this policy are allowed after express and case-specific consent, and provided that the applicable sanctions laws and regulations are met. At present, the specified countries are Myanmar, North Korea, Sudan (North Sudan and South Sudan), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, U.S. and other sanctions regimes. NN Group has had a sanctions policy in place since 2007 and has a mandate to run down any existing commitments. As such, remaining exposure and contacts arise solely in the context of NN Group's on-going efforts to run down the legacy portfolio of commitments.

NN Group performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. For more information on the status of the unit linked legal proceedings in the Netherlands, see "*Legal Proceedings*" of the Annual Account.

The compliance function and the business work closely together to optimise both products and services to meet the customers' needs. NN Group's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks.

ECONOMIC CAPITAL FOR ENTITIES OUTSIDE NN GROUP'S INTERNAL MODEL

NN has several businesses which are not included in the internal model as the internal model has been developed for insurance operations. NN Group determines the economic capital for these businesses using an approach consistent with the way these businesses are included in the AFR calculations as described in the Capital Management section.

Economic capital for other business NN Bank, IIM units on local required capital levels and other non-modelled

	2013	2012
Pension fund business in Europe	178	157
NN Bank	271	34
ING Investment Management	191	223
Other non-modelled entities	236	417
Asia discontinued	112	1,504
Total	988	2,335

Risk management continued

The Pension Fund businesses in Central Europe have been included on the basis of their local required capital using sectoral rules. NN Bank has been included in 2013 using 12% of risk weighted assets. At year-end 2012 NN Bank was not of meaningful size and its economic capital was based on its IFRS equity. The IIM entities and the other non-regulated business units have been included at their amount of IFRS equity adjusted for intangibles. The discontinued insurance operations in Asia have been included in the economic capital using 150% of the Solvency I requirement. The economic capital reduced significantly due to the 2013 closing of the sale of the life insurance businesses in Hong Kong, Macau, India, South Korea and Thailand as well as the closing of the sale of the investment management businesses in South Korea and China. At 31 December 2013, the life insurance Joint Venture in China and the investment management entities in Taiwan and India are the only remaining discontinued Asian businesses. The economic capital of these businesses is added without taking into account diversification benefits.

REGULATORY CAPITAL AND IFRS RESULT BEFORE TAX SENSITIVITIES

The following two sections will provide the sensitivities of regulatory capital and IFRS result before tax, which are also important risks monitored by management and can be different from economic sensitivities. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity Descriptions

	Regulatory Capital	IFRS Result Before Tax
Interest rate risk	Measured by the impact of a 30% upward and downward movement in interest rates (parallel shift based on 30% of the 10 year rate)	Same shock applied as under Regulatory Capital sensitivities
Equity risk	Measured by the impact of a 25% upward and downward movement in equity prices	Same shock applied as under Regulatory Capital sensitivities
FX risk	Measured by the impact of the worse of a 10% upward or downward movement in all currencies compared to the euro	Same shock applied as under Regulatory Capital sensitivities
Credit spread risk	Measured by the impact of a relative increase based on multiplying duration by a rating-based shock calibrated to the 1 in 10 sensitivities of the internal model (e.g. Double A 10-year bond shock is 120 basis points) AAA and AA-rated government bonds and home government bonds in local currency excluded, exception only applicable to Greek bonds Shocks for structured credit are 50% higher than for similarly rated corporate and government bonds	Not calculated as spread risk is minimal for IFRS results
Real estate price risk	This is measured by the impact of a 10% drop in real estate prices only for the minority holdings and direct for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices however as rental income is not assumed under the regulatory capital base case, the –10% shock applied is off-set by +5% rental income resulting in an effective shock of –5%.	This is measured by the impact of a 10% drop in real estate prices only for the minority holdings and direct for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices. As rental income is already included in planned annual earnings, no offset (to the –10% shock) is taken into account for rental income.
Variable Annuity risk	This is measured by a 1 in 10 impact of the aggregate market risk shocks of the internal model on the variable annuity business	Same shock as applied for the regulatory capital sensitivities. Note that both the 2013 and 2012 sensitivity have been based on the assumption that the accounting policy change for the Japan Closed Block VA GMDB business as of 1-1-2014 has already been implemented.
Mortality (Including Longevity)	Not shown. In general, similar to the IFRS sensitivity other than longevity risk in the Netherlands, for which changes to assumptions can impact available capital on a present value basis.	Mortality sensitivity is determined using a 1 in 10 mortality sensitivity of internal model
Morbidity	Not shown. In general, similar to IFRS sensitivities.	Morbidity sensitivity is determined using a 1 in 10 morbidity sensitivity of internal model
P&C	Not shown. In general, similar to IFRS sensitivities.	P&C sensitivity is determined using a 1 in 10 P&C sensitivity of internal model

Risk management continued

SENSITIVITIES OF REGULATORY CAPITAL AT RISK

One of the three quantitative risk appetite statements of NN Group is to ensure that there is sufficient cash capital. The cash capital is determined by the ability of subsidiaries to pay dividends and their potential need for capital injections to continue operations within the local market. Whether or not a capital injection is necessary is assessed based on available regulatory capital and commercial target levels of regulatory required capital. Market stresses primarily impact the available regulatory capital, but in the case of regulated entities within Netherlands Life and ING Life Japan, required regulatory capital also moves with market movements.

Estimated regulatory capital sensitivities

		2013	2012 [1]
	Interest Rate +30% in 10y rate	**–148**	–50
	Interest Rate –30% in 10y rate	**224**	75
	Equity –25%	**–747**	–595
	Equity +25%	**748**	652
Market risk and credit risk	Real estate –10%	**–170**	–192
	FX –10%	**–106**	–90
	Credit spread	**–1,894**	–1,902
	Counterparty default	**–27**	–7
	Variable Annuity (Europe and Japan)	**–260**	–357

(1) In 2012, NN Group did not report regulatory capital sensitivities Therefore, the 2012 regulatory capital sensitivities are high level estimates based on internal risk management reports.
(2) A high level estimate has been used to calculate the impact of interest rate stresses on the risk margin which in used to determine the regulatory available and required capital in Netherlands Life.

The credit spread sensitivity is the largest risk to cash capital and is primarily caused by Netherlands Life given the long term assets in the Netherlands Life portfolio and the spread risk to the liability discounted at the swap rate (see *Market and Credit Spread Risk: General Account Business—Credit spread risk*). Also, Netherlands Non-Life, Spain Life, Greece Life and Japan Life are exposed to credit spread risk on their regulatory balance sheet as assets are valued at market value.

The available regulatory capital balance sheet of Netherlands Life (which includes a significant amount of long-term liabilities) is modestly exposed to lower interest rates mostly due to the UFR impact on the liability discount curve. The other regulated entities are, however, exposed to higher interest rates as assets are at market value, but liabilities are not. This results in an overall position which is relatively insensitive to interest rates.

The equity sensitivity is primarily related to the general account equity holdings and increased during the year as the total value of equity securities increased.

FX primarily reflects open positions in investments held by Japan Life and Netherlands Life. This does not include any translation risk.

The variable annuity risk is dominated by Japan Closed Block VA and decreased significantly over 2013 due to depreciation of the JPY versus EUR.

Apart from the estimated sensitivities set out above, NN Group is exposed to volatility and basis risk with regards to the separate account guaranteed group pension business in Netherlands Life. Netherlands Life is also exposed to changes in assumptions with regards to longevity, expenses and policyholder behaviour as the present value impact on the policyholder liabilities of such assumption changes will be immediately reflected in the available regulatory capital.

Risk management continued

SENSITIVITIES OF IFRS RESULT BEFORE TAX

The table below sets out various market and insurance risk shocks for IFRS result before tax sensitivities.

Estimated IFRS result before tax sensitivities

		2013	2012
	Interest Rate +30% in 10y rate	–3	–56
	Interest Rate –30% in 10y rate	7	99
	Equity –25%	–362	–437
	Equity +25%	273	367
Market risk and credit risk	Real estate –10%	–485	–508
	FX –10%	–58	–53
	Counterparty default	–96	–85
	Variable annuity (Europe and Japan)	–260	–357
	Mortality (including longevity)	–26	–29
Insurance risk	Morbidity	–100	–100
	P&C	–92	–82

The reported market risk sensitivities for 2013 reflect the refinement of the accounting for the separate account pension business in the Netherlands. This change significantly reduced the sensitivity of NN Group's result before tax to interest rates as both the interest rate hedges and the technical provisions for this book move the same way with interest rates.

As at 31 December 2013, the result before tax sensitivities to equity risk primarily relate to the general account equity holdings in the Netherlands and Belgium, the hedging of the separate account pension business in the Netherlands and fee income from NN Group's investment management business, for which earnings sensitivities have been included as of year-end 2013. IFRS real estate sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS result before tax. The sensitivities decreased in 2013 due to lower real estate exposures.

The variable annuity risk for 2012 and 2013 primarily relates to Japan Closed Block VA and decreased due to FX movements. Both the 2012 and 2013 figures are adjusted to reflect the implementation of the move towards fair value accounting on the reserves for the guaranteed minimum death benefits of the Japan Closed Block VA, as of 1 January 2014.

In 2013, result before tax sensitivities to P&C risk increased primarily due to increased retention levels for windstorm catastrophe risk.

OTHER RISK INFORMATION

Greece, Italy, Ireland, Portugal, Spain and Cyprus (GIIPSC)

Since 2010 concerns arose regarding the creditworthiness of certain European countries. As a result of these concerns the fair value of sovereign debt decreased and those exposures are being monitored more closely. With regard to the sovereign debt crisis, ING's main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility ("EFSF") or receive support from the ECB via government bond purchases in the secondary market. Further details on exposure to Government bonds and Unsecured Financial institutions' bonds are included in Note 3 "Available-for-sale Investments".

The table below provides information on ING's risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent risk exposure values and exposures are included based on the country of residence of the direct Obligor to which ING has primary recourse of repayment of the obligations, except most RMBS, which exposures are based on country of risk. Cyprus is not included in the table below as NN Group had no exposure linked to this country.

Risk management continued

Greece, Italy, Ireland, Portugal and Spain – Total risk exposures [(1)]

2013	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	9				18	27
Corporate Lending		75	25			100
Financial Institutions Lending	11				170	181
Government Lending						
Total Lending	20	75	25	0	188	308
RMBS	27	236		182	263	708
CMBS						
Other ABS		12			2	14
Corporate Bonds		287	254	15	164	720
Covered Bonds		9	5		355	369
Financial Institutions' bonds (unsecured)		58		26	76	160
Government Bonds	39	1,303	53	5	1,013	2,413
Total Debt Securities	66	1,905	312	228	1,873	4,384
Real Estate	22	346		206	262	836
Total exposure	108	2,326	337	434	2,323	5,528

[(1)] The exposures reported in these tables are outstanding amounts, different valuation method from previous tables in the Risk Section where exposures are reported as Market Value.

Greece, Italy, Ireland, Portugal and Spain – Total risk exposures [(1)]

2012	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	12				19	31
Corporate Lending		50	25			75
Financial Institutions Lending	7				254	261
Government Lending						
Total Lending	19	50	25	0	273	367
RMBS	30	330	100	208	351	1,019
CMBS						
Other ABS		24			8	32
Corporate Bonds		316	258	27	156	757
Covered Bonds		18	15		507	540
Financial Institutions' bonds (unsecured)		52	36	38	109	235
Government Bonds	36	1,345	53	5	967	2,406
Total Debt Securities	66	2,085	462	278	2,098	4,989
Real Estate	21	275		217	342	855
Total exposure	106	2,410	487	495	2,713	6,211

[(1)] The exposures reported in these tables are outstanding amounts, different valuation method from previous tables in the Risk Section where exposures are reported as Market Value.

Total exposure to the GIIPS countries was reduced by EUR 683 million in 2013. NN Group reduced its exposure in debt securities by EUR 605 million and Financial Institutions lending by EUR 80 million. In debt securities, ABS exposure decreased by EUR 329 million, mainly in Italy by EUR 106 million and Ireland by EUR 100 million, and covered bonds went down by EUR 171 million, mainly in Spain by EUR 152 million. The decrease in Financial Institutions lending was mainly in Spain by EUR 84 million.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVE

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities, which involves the management, planning and allocation of capital within ING Group, as well as the treasury function, which is key to manage and execute the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, NN Group and ING Bank. In 2013, NN Group set up separate Corporate Finance department to manage the capital planning and treasury activities for the Insurance operations in the context of its preparations to separate from ING Group. Capital Management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity and fixed coverage ratio) and internal metrics such as Available Financial Resources (AFR) and Economic Capital (EC).

ING applies the following main capital definitions:

- Insurance Group Directive capital (NN Group) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 "method based on accounting consolidation" of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See "Capital Base" disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base. As of 30 September 2013, the IGD ratio for NN Group was adjusted for the transfer of ING U.S. Inc. from NN Group N.V. to ING Groep N.V. and a change in the calculation methodology. Prior period has not been restated to reflect these adjustments, as the impact is not material.
- AFR (NN Group excluding US Insurance business) –This is a pre-tax market value concept, defined for the insurance operations in scope of the IPO as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities valuation includes an adjustment for liquidity premium. For other businesses a proxy is used for AFR, i.e. statutory net equity for third party pension funds and NN Bank, and IFRS Equity adjusted for Goodwill for Asian divestments and Investment Management companies. The qualifying perpetual hybrid capital is considered equity and included in AFR. AFR is used as the measure of available capital in comparison with EC employed.
- EC (NN Group excluding US Insurance business) – This is the pre-tax required capital for the insurance operations in scope of the IPO, based on a 99.5% confidence interval on a one-year horizon. This is considered an interim step to the Solvency II capital framework. The EC for other businesses is based on a proxy, i.e. sectoral rules for third party pension funds and NN Bank, 150% EU required capital for Asian divestments, and IFRS Equity adjusted for Goodwill for Investment Management companies.
- Regulatory Capital framework – Insurance and Investment Management legal entities have to comply with local statutory capital frameworks that are under supervision of local regulators. Most of these frameworks for insurance businesses in Europe are based on Solvency I principles and are expected to migrate to Solvency II starting in 2016.
- Financial Leverage (NN Group) – Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt.

DEVELOPMENTS 2013

In 2013 Capital Management's main focus remained the strengthening of the capital position of ING Group, ING Bank and NN Group. ING's capital is well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities. ING Group repaid another EUR 0.75 billion of Core Tier one securities and at yearend 2013 EUR 1.5 billion was outstanding of the original amount of EUR 10 billion.

In May 2013, the US Insurance business was successfully separated and listed (VOYA) on the NYSE. NN Group has divested this business in several tranches. In May NN Group sold approximately 28% shares in Voya and successfully completed the secondary offering of Voya with proceeds of EUR 644 million. On 30 September 2013, NN Group transferred its remaining shares of the US Insurance business to ING Group. In October, ING Group sold another tranche of approximately 15% shares in Voya with proceeds of EUR 788 million. At the end of 2013, ING Group still owns 56.7% of the US Insurance business.

The proceeds from the Initial Public Offering of the US Insurance business and from the partial divestment of Sul América S.A. in Brazil to GrupoSura and to the Larragoiti family were fully paid up to ING Group and used to reduces core debt at ING Group.

Capital management continued

NN Group reduced its financial leverage substantially, from 31% by the end of 2012 to 26% at the end of 2013. This was mainly driven by the proceeds from the sale of its Asian Insurance businesses o.w. Hong Kong, Korea, Thailand and India, a capital injection from ING Group, the transfer of the US business from NN Group to ING Group and dividends from operating companies, offset by capital injections into operating companies, including a cash capital requirement for IPO purposes and holding company interest costs and expenses. In September NN Group N.V. redeemed senior debt of EUR 0.7 billion and an intercompany loan from ING Group of EUR 1.3 billion. The redemptions were funded by a new short-term intercompany loan of EUR 2 billion from ING Group, which was reduced to EUR 1 billion in December following a capital injection from ING Group.

Nationale-Nederlanden Bank N.V. (part of NN Group) acquired parts of Westland-Utrecht Bank (owned by ING Bank) per 1 July 2013. This acquisition was funded by a capital injection from ING Group and therefore not increasing financial leverage of NN Group.

In order to comply with the obligations toward the European Commission, ING Group largely finalised the divestment of its Asian business, US business and Brazilian business; the total proceeds from divestments in 2013 were EUR 4.1 billion.

Additionally, ING Group is in process of preparing NN Group for a separate listing in 2014. As part of those preparations to become a stand-alone company, ING Group injected EUR 1 billion of capital to further strengthen the capitalisation of NN Group.

REGULATORY

On 1 January 2014, an interim solvency regulation (commonly referred to as Solvency 1.5) has come into force in the Netherlands, in addition to the existing Solvency I framework. This new regulation fits within DNB's approach to make the supervision of insurance companies more risk sensitive and forward looking. Solvency 1.5 places additional requirements on management of capital. The legislation also introduces the Theoretical Solvability Criterion (*theoretisch solvabiliteitscriterium*; TSC), which applies to large and medium-sized life insurance companies in the Netherlands. The aim of the TSC is to ensure that, after the realisation of some pre-defined stress scenarios, insurance companies still comply with their solvency requirements. In case the solvency position of an insurer is below the TSC, the DNB could require the insurance company to submit a recovery plan. Additionally, if the solvency position is below the TSC, DNB could require a declaration of no objection for dividend payments and other withdrawals from own funds.

The Dutch life insurance companies of NN Group have been using the ECB AAA curve to perform the regulatory test of adequacy of their insurance liabilities at year end 2012. On 12 July 2013, Fitch downgraded France to AA+, resulting in French government bonds no longer being included in the ECB AAA curve. The downgrade caused a drop of the ECB AAA curve of on average 15 basis points (dependent on the point on the curve), leading to an increase in the valuation of the liabilities and therefore a decrease in available regulatory capital if a shortage resulted from the test of adequacy. The DNB swap curve is the only alternative curve to the swap curve allowed by DNB that is available to Dutch life insurance companies to discount liabilities in the regulatory test of adequacy. As of Q3 2013, the Dutch life insurance companies of NN Group have been granted permission by DNB to use the DNB swap curve for the test of adequacy. The impact of the downgrade of France had an immediate unfavourable impact on NN Life's regulatory solvency ratio of about 39%-points.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

PROCESSES FOR MANAGING CAPITAL

Capital Management manages its capital on a pro-active basis and ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and NN Group and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet its financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is performed on a regular basis. These stress tests focus on topical issues and the sensitivity of NN Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

Capital management continued

A key priority of Capital Management is to ensure that strong stand-alone companies are created for banking and insurance in preparation of the separation. Both operations need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2013, NN Group was adequately capitalised.

Capital position of NN Group

	2013	2012 (4)
Shareholder's equity (parent)	**14,227**	26,423
Hybrids issued by NN Group to ING Group (1)	**2,394**	2,438
Hybrids issued by NN Group (2)		476
Required regulatory adjustments	**–5,368**	–6,891
IGD capital	**11,253**	22,446
EU required capital base	**4,379**	9,523
IGD Solvency I ratio (3)	**257%**	236%

(1) Hybrids issued by ING Group at notional value.
(2) Hybrids issued by NN Group at notional value capped at 25% of EU required capital. As from 1 January 2013 the hybrid issued by NN Group N.V. with notional amount of EUR 476 million does not qualify anymore for IGD Capital based on regulations from DNB.
(3) The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.
(4) The IGD Solvency I ratio reported in the 2012 Annual Report of 245% is restated due to the change in accounting policy for employee benefits as disclosed in the section "Changes in accounting policies in 2013" on page 33.

During 2013, the IGD ratio of NN Group increased from 236% at the end of 2012 to 257% at the end of 2013. This improvement reflects a decrease of Shareholders' equity and a release of required capital following the various divestments that closed during 2013, the IPO of ING U.S. and the transfer of the remaining interest in ING U.S. to ING Group. In addition, the improvement was supported by favourable market developments, net operating results and the EUR 1 billion capital injection from ING Group to redeem debt. This was only partially offset by the impact of the downgrade of France by Fitch on the NN Life solvency ratio, the exclusion of a EUR 0.5 billion hybrid loan that no longer qualifies as capital and the write down of the DAC for the Japan Closed Block VA business.

NN Group continues to aim that all operating entities are adequately capitalised based on local regulatory and rating agency requirements and that on a consolidated basis, the financial leverage (hybrids, sub-debt and financial debt) of NN Group is appropriate relative to the capital base.

Capital base and financial leverage of NN Group

	2013	2012 (4)
Shareholder's equity (parent)	**14,227**	26,423
Revaluation reserve debt securities	**–2,804**	–9,282
Revaluation reserve crediting to life policyholders	**2,579**	5,673
Revaluation reserve cash flow hedge	**–2,726**	–3,548
Goodwill	**–264**	–351
Minority interests	**68**	217
Capital base for financial leverage (a)	**11,080**	19,132
Hybrids issued by NN Group to ING Group (1)	**2,401**	2,451
Hybrids issued by NN Group (2)	**491**	496
Total hybrids (b)	**2,892**	2,947
External debt issued by NN Group N.V.		694
External debt issued by US Holding companies		2,307
Senior Debt issued by NN Group to ING Group	**1,000**	1,311
Other net financial debt (3)		1,457
Total financial debt (c)	**1,000**	5,769
Total financial leverage (d) = (b) + (c)	**3,892**	8,716
Financial leverage ratio (e) = (d) / {(a) + (d)}	**26%**	31%

Capital management continued

(1) Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
(2) Hybrids issued by NN Group at amortised cost value consistent with IFRS carrying value.
(3) Includes net internal borrowings from the operating subsidiaries, offset by net current assets of the holding companies in excess of a cash capital requirement.
(4) The Capital base for financial leverage as reported in the 2012 Annual Report of EUR 20,007 million is restated due to the change in accounting policy for employee benefits as disclosed in the section "Changes in accounting policies in 2013" on page 33.

For NN Group in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

Reconciliation between IGD capital and Capital base for financial leverage

	2013	2012
IGD capital	**11,253**	22,446
Hybrids issued by NN Group to ING Group	**–2,394**	–2,438
Hybrids issued by NN Group		–476
Revaluation reserve debt securities	**–2,804**	–9,282
Revaluation reserve crediting to life policyholders	**2,579**	5,673
Revaluation reserve adjustments	**2,446**	3,209
Capital base for financial leverage	**11,080**	19,132

The table below provides the capital ratios for the larger Insurance subsidiaries according to local regulatory capital frameworks:

Local Capital ratios for the larger Insurance operations

	2013 (1)	2012 (2)
NN Life	**222%**	191%
ING Re Netherlands	**1,253%**	320%
ING Life Japan	**1,366%**	989%

(1) The 2013 capital ratios are not final until filed with the regulators.
(2) Comparable capital ratio for ING Life Japan is at 31 March 2013, as the financial year for ING Life Japan runs from 1 April until 31 March.

NN Life's capitalisation improved due to a EUR 0.6 billion capital injection, higher performance of the equity portfolio, lower credit spreads, but offset by the change in valuation curve from ECB AAA curve to DNB Swap curve. Following the subordinated loan to NN Life and the impact of the pension agreement in the first quarter of 2014, the estimated pro-forma solvency I ratio for NN Life is 234%.

The capital ratio of ING Re increased mainly due to a capital injection of EUR 0.6 billion to strengthen its capitalisation from an economic basis, favourable market developments and a decrease in required capital. Required capital decreased mainly due to lower value of the guarantees for the reinsured Japan VA business and the termination of the Stop-Loss contract with Poland.

ING Life Japan's capital ratio improved due to profits in the period from 1 April until 31 December 2013 and lower required capital, reflecting decreasing SPVA minimum guarantee reserve, which is led by favourable market developments and increased SPVA lapses.

For NN Group, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The SII regulations are not final and material deviations from our proxy could materialise; see the risk management section for more details. AFR in the 2012 Annual Report of ING Verzekeringen N.V. was derived for ING Insurance EurAsia excluding Asian Insurance and Investment Management businesses and the reinsured Japan VA guarantees to ING Re (Netherlands) N.V. that were classified as held-for-sale operations. ING announced in 2013 that NN Group N.V. will be divested instead of ING Insurance Eurasia N.V., and after carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group's insurance and investment management businesses in the base case IPO of NN Group in 2014, subject to market and other conditions. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re ("NN Group's business in Japan") are no longer classified as held-for-sale operations. All references to Asia in this disclosure therefore, refer to the insurance and investment management businesses in Asia other than NN Group's business in Japan.

The following table presents the reconciliation from the 2012 AFR for Insurance EurAsia excluding Asian held-for-sale operations as reported in the Annual Report 2012, to the comparable basis for NN Group excluding US Insurance business. The impact of the change in scope on EC is explained in detail in the Risk paragraph.

Capital management continued

Change of scope of AFR 2012	
amounts in billions of euros	AFR [1]
As reported for ING Insurance EurAsia (excluding held-for-sale operations) in 2012	9.6
Change in model and methodology [1]	–0.8
Include NN Group's businesses in Japan as modelled business	2.4
Include the other Asian held-for-sale operations as unmodelled business	4.0
Include legacy units and holding	–3.8
NN Group 2012 excluding US Insurance business on a basis comparable to 2013	11.4

[1] The change in model and methodology refers to the change in accounting policy for employee benefits as disclosed in the section "Changes in accounting policies in 2013" on page 33.

The table below provides AFR and EC on comparable basis for NN Group (excluding US operations).

AFR and EC	2013	2012
AFR	**13.6**	11.4
EC	**7.0**	8.7
Excess AFR over EC	**6.6**	2.7
AFR-EC ratio	**193%**	131%

The AFR-EC ratio for NN Group excluding US Insurance business increased in 2013 as a result of higher AFR and lower EC. AFR increased from EUR 11.4 billion at the end 2012 to EUR 13.6 billion at the end of 2013. AFR increased mainly due to a capital injection from ING of EUR 1.3 billion (EUR 1.0 billion to redeem ING Group loan and EUR 0.3 billion to acquire parts of WestlandUtrecht Bank) and the inclusion of the "Ultimate Forward Rate" (UFR) in the valuation curve of EUR 1.6 billion. This increase was partially offset by the change of treatment of the pension asset (included in 2012 figures but excluded in 2013) of EUR 0.7 billion and the change in treatment of the external hybrid of EUR 0.5 billion, which is not considered AFR as from 1 January 2013 (consistent with IGD ratio). The change in EC during 2013 is explained in detail in the Risk paragraph.

Main credit rating of ING at 31 December 2013	Standard & Poor's		Moody's		Fitch	
	Rating	**outlook**	**Rating**	**outlook**	**Rating**	**outlook**
ING Group N.V.	**A-**	**stable**	**A3**	**negative**	**A**	**negative**
– long term						
NN Group N.V.						
– short term	**A-2**		**P-2**		**F2**	
– long term	**BBB+**	**stable**	**Baa2**	**negative**	**A-**	**negative**

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 17 March 2014

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S.D. (Doug) Caldwell, *CRO*
D.E. (Dorothee) van Vredenburch, *member*
P.G. (Patrick) Flynn, *member*
W.F. (Wilfred) Nagel, *member*

Parent company balance sheet of NN Group N.V.

as at 31 December before appropriation of result

amounts in millions of euros	2013	2012
Assets		
Investments in group companies 1	18,558	31,198
Other assets 2	1,893	4,480
Total assets	20,451	35,678
Equity 3		
Share capital		
Share premium	11,605	17,750
Share of associates reserve	3,502	7,252
Other reserves	–890	383
Unappropriated result	10	1,038
Shareholder's equity	14,227	26,423
Liabilities		
Subordinated loans 4	2,892	2,947
Other liabilities 5	3,332	6,308
Total liabilities	6,224	9,255
Total equity and liabilities	20,451	35,678

References relate to the notes starting on page 188. These form an integral part of the parent company annual accounts.

Parent company profit and loss account of NN Group N.V.

for the year ended 31 December

amounts in millions of euros	2013	2012
Result of group companies	47	1,092
Other results after tax	–37	–54
Net result	10	1,038

Parent company statement of changes in equity of NN Group N.V.

amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Other reserves [1]	Total
Balance as at 31 December 2011		17,750	5,190		472	23,412
Remeasurement of the net defined benefit asset/liability			–910			–910
Unrealised revaluations property in own use			–13			–13
Unrealised revaluations available-for-sale investments and other			5,073			5,073
Realised gains/losses transferred to profit and loss account			–367			–367
Changes in cash flow hedge reserve			665			665
Transfer to insurance liabilities/DAC			–2,181			–2,181
Other revaluations					75	75
Exchange rate difference			–369			–369
Total amount recognised directly in equity (Other comprehensive income)	0	0	1,898	0	75	1,973
Net result from continuing and discontinued operations					1,038	1,038
Total comprehensive income	0	0	1,898	0	1,113	3,011
Transfer to share of associates reserve			164		–164	
Balance as at 31 December 2012 (restated)	**0**	**17,750**	**7,252**	**0**	**1,421**	**26,423**
Remeasurement of the net defined benefit asset/liability			**–42**			**–42**
Unrealised revaluations property in own use			**–1**			**–1**
Unrealised revaluations available-for-sale investments and other			**–4,627**		**–45**	**–4,672**
Realised gains/losses transferred to profit and loss			**90**			**90**
Changes in cash flow hedge reserve			**–832**			**–832**
Transfer to insurance liabilities/DAC			**2,154**			**2,154**
Exchange rate difference			**–647**			**–647**
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**–3,905**	**0**	**–45**	**–3,950**
Net result from continuing and discontinued operations					**10**	**10**
Total comprehensive income	**0**	**0**	**–3,905**	**0**	**–35**	**–3,940**
Transfer from to associates			**118**		**–118**	
Capital contribution		**1,330**				**1,330**
Employee stock option and share plans			**37**			**37**
Changes in composition of the group and other changes		**–6,826**			**43**	**–6,783**
Impact of IPO ING U.S.					**–1,958**	**–1,958**
Dividend		**–649**			**–233**	**–882**
Balance as at 31 December 2013	**0**	**11,605**	**3,502**	**0**	**–880**	**14,227**

[1] Other reserves includes Retained earnings, Other reserves and Unappropriated result.

Accounting policies for the parent company annual accounts of NN Group N.V.

ESTABLISHMENT OF NN GROUP

Until recently, ING Verzekeringen N.V. (“ING Insurance”) was the holding company of the insurance and investment management activities of ING. As such, ING Insurance prepared consolidated financial statements under IFRS-EU that included ING Insurance and all its subsidiaries. ING Insurance was a wholly-owned subsidiary of ING Insurance Topholding N.V. (“ING Topholding”), a wholly-owned subsidiary of the ultimate parent ING Groep N.V. ING Topholding was a holding company with no other assets, liabilities and activities than its 100% holding in ING Insurance.

On 28 February 2014, before the finalisation of the 2013 consolidated financial statements, ING Insurance and ING Topholding legally merged. Through this merger, the legal entity ING Insurance ceased to exist. The legal merger became effective on 1 March 2014 and on that date the merged entity was renamed NN Group N.V. (“NN Group”).

The merged entity NN Group N.V. is in substance a continuation of ING Insurance. As of 2013, NN Group prepares consolidated financial statements under IFRS-EU in which all assets and liabilities of ING Insurance and its subsidiaries are included at their existing carrying values. The parent company financial statements are those of NN Group N.V. As ING Topholding was a holding company with no other assets, liabilities and activities than its 100% holding in ING Insurance , the financial position and results of NN Group are not significantly different from what these would have been for ING Insurance.

BASIS OF PRESENTATION

The parent company accounts of NN Group N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the Consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of investments in group companies and investments in associates which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

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

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserves of associates are reflected in the Share of associates reserve, which forms part of Shareholder’s equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with NN Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in the Share of associates reserve.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve, which forms part of Shareholder’s equity.

The amounts for 2012 have been restated to reflect the change in accounting policy as disclosed in the section “Change in accounting policies” in the Note 1 “Accounting policies” of the consolidated annual accounts.

Notes to the parent company annual accounts of NN Group N.V.

amounts in millions of euros, unless stated otherwise

ASSETS

1 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Proportion of ownership interest and voting rights held by the direct parent company	Balance sheet value	Proportion of ownership interest and voting rights held by the direct parent company	Balance sheet value
	2013	**2013**	2012	2012
ING Insurance Eurasia N.V.	**100%**	**16,371**	100%	18,759
ING U.S., Inc.			100%	10,165
ING Insurance International B.V.	**100%**	**2,171**	100%	2,258
Other	**100%**	**16**	100%	16
		18,558		31,198

Changes in investments in group companies

	2013	2012
Opening balance	**31,198**	27,794
Repayments-capital contribution	**–2,507**	–134
Disposals of group companies	**–7,451**	–2
Revaluations	**–5,877**	2,024
Result of group companies	**47**	1,092
Capital contribution	**3,150**	424
Dividend	**–2**	
Closing balance	**18,558**	31,198

In 2013, Disposal of group companies includes the transfer of ING U.S.

2 OTHER ASSETS

Other assets

	2013	2012
Receivables from group companies	**1,375**	3,917
Other receivables, prepayments and accruals	**518**	563
	1,893	4,480

As at 31 December 2013, an amount of EUR 488 million (2012: EUR 4,433 million) is expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of NN Group N.V. continued

EQUITY
3 EQUITY

Equity

	2013	2012
Share capital		
Share premium	11,605	17,750
Share of associates reserve	3,502	7,252
Other reserves and unappropriated result	–880	1,421
	14,227	26,423

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 458 million (2012: EUR 340 million) and Revaluation reserve of associates of EUR 3,044 million (2012: EUR 8,397 million).

Share capital

	Ordinary shares (par value EUR 1.00)			
	Number x 1,000		Amount	
	2013	2012	2013	2012
Authorised share capital	225	225		
Unissued share capital	180	180		
Issued share capital	45	45	0	0

NN Group has an issued share capital of EUR 45,000. For details on the changes in 2013, in share premium, reference is made to Note 13: "Equity" of the Consolidated annual accounts.

Changes in other reserves and unappropriated result

2013	Retained earnings	Unappro–priated result	Total
Opening balance	382	1,038	1,420
Net result		10	10
Unrealised revaluations	–45		–45
Transfer to Share of associates' reserve	–118		–118
Transfer to retained earnings	805	–805	0
Changes in the composition of the group and other changes	44		44
Impact of IPO ING U.S.	–1,958		–1,958
Dividend		–233	–233
Closing balance	–890	10	–880

Changes in other reserves and unappropriated result

2012	Retained earnings	Unappro–priated result	Total
Opening balance	512	–41	471
Net result		1,038	1,038
Unrealised revaluations	75		75
Transfer to Share of associates' reserve	–164		–164
Transfer to retained earnings	–41	41	0
Closing balance	382	1,038	1,420

Positive components of the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis.

Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components in the Currency translation reserve and Share of associates reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings.

Notes to the parent company annual accounts of NN Group N.V. continued

The total amount of Equity in the parent company annual accounts equals Shareholder's equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts; and
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts.

The total amount of non-distributable reserves is EUR 3,502 million (2012: is EUR 7,252 million).

See Note 13 "Equity" in to the consolidated annual accounts for additional information.

Notes to the parent company annual accounts of NN Group N.V. continued

LIABILITIES
4 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount	Balance sheet value 2013	2012
8.000%	2011	Perpetual	EUR	450	**450**	450
Variable	2008	Perpetual	EUR	813	**813**	834
Variable	2007	Perpetual	EUR	740	**740**	758
4.176%	2005	Perpetual	EUR	169	**176**	181
Variable	2005	Perpetual	EUR	148	**148**	152
Variable	2005	Perpetual	EUR	74	**74**	76
6.375%	2002	7 May 2027	EUR	476	**491**	496
					2,892	2,947

The subordinated loans rank subordinated to the other liabilities in a winding-up of NN Group.

5 OTHER LIABILITIES

Other liabilities by type

	2013	2012
Debenture loans		694
Amounts owed to group companies	**3,250**	5,554
Other amounts owed and accrued liabilities	**82**	60
	3,332	6,308

Debenture loans

Interest rate	Year of Issue	Due date	Balance sheet value 2013	2012
Floating	2006	Sep 2013		270
4.000%	2006	Sep 2013		424
			0	694

Amounts owed to group companies by remaining term

	2013	2012
Within 1 year	**2,873**	5,250
More than 5 years	**377**	304
	3,250	5,554

6 OTHER
Guarantees

As at 31 December 2013, NN Group N.V. had guarantees on behalf of ING Bank companies to third parties of nil (2012: EUR 221 million) outstanding.

NN Group N.V. has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for group companies.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD

See Note 52 “Related parties” to the consolidated Annual Accounts for additional information.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 17 March 2014

THE SUPERVISORY BOARD

J. (Jeroen) van der Veer, chairman
P.A.F.W. (Peter) Elverding, vice-chairman
J.P. (Tineke) Bahlmann
H.W. (Henk) Breukink
C.W. (Carin) Gorter
J.H. (Jan) Holsboer
J.Ch.L. (Joost) Kuiper
H-J.M. (Hermann-Josef) Lamberti
I. (Isabel) Martín Castellá
R.W.P. (Robert) Reibestein
Y.C.M.T. (Yvonne) van Rooy
L.A.C.P. (Luc) Vandewalle

THE MANAGEMENT BOARD NN GROUP

R.A.J.G. (Ralph) Hamers, *CEO and chairman*
E. (Lard) Friese, vice-chairman
D. (Delfin) Rueda, *CFO*
S.D. (Doug) Caldwell, *CRO*
D.E. (Dorothee) van Vredenburch, *member*
P.G. (Patrick) Flynn, *member*
W.F. (Wilfred) Nagel, *member*

Independent auditor's report

To: the Shareholder, the Supervisory Board and the Management Board NN Group N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2013 of NN Group N.V., Amsterdam (as set out on pages 26 to 192). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2013, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2013, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of NN Group N.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of NN Group N.V. as at 31 December 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination of whether the report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 17 March 2014

Ernst & Young Accountants LLP

signed by A.F.J. van Overmeire

Proposed appropriation of result and Subsequent events

amounts in millions of euros

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Group N.V., the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board.

For 2013, it is proposed to appropriate the entire result to reserves, so that no final dividend will be paid.

NN Group has transferred its interest in its subsidiary ING U.S., Inc. (“ING U.S.”) to ING Groep N.V. by way of dividend in kind of EUR 6,826 million. Reference is made to Note 53 “Other events” for more details on the transaction.

In 2013, NN Group declared and paid a cash dividend of EUR 882 million (2012: nil) to ING Groep N.V. Reference is made to Note 13 “Equity” of the Consolidated annual accounts.

Proposed appropriation of result

Net result	**10**
Proposed to be added to the Other Reserves pursuant to Articles 21(2) and 21(3) of the Articles of Association	**10**

SUBSEQUENT EVENTS

Defined Benefits Pension Fund in The Netherlands

In February 2014 ING reached an agreement with the trade unions, the ING Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations of ING’s current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement has made the ING Pension Fund financially independent from ING.

The key elements of the agreement are:

- Responsibility for future indexation and funding thereof will be transferred to the Dutch ING Pension Fund;
- ING’s obligation to restore the coverage ratio of the Dutch ING Pension Fund ceased;
- The cross guarantees between ING Bank and NN Group to jointly and severally fund the obligations of the Dutch ING Pension Fund are terminated;
- ING paid EUR 549 million (before tax) to the Dutch ING Pension Fund for the removal of these obligations; and
- ING will reduce the employees’ own contribution to the pension premium under the new defined contribution plan by approximately EUR 80 million over a 6 year period.

As part of the agreement, ING Bank and NN Group are released from all financial obligations arising from the Dutch defined benefit plan. Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from the balance sheet. The removal of the net pension asset related to the Dutch defined benefit pension plan from the balance sheet of approximately EUR 0.6 billion after tax and the payment to the Dutch ING Pension Fund of EUR 0.5 billion (EUR 0.4 billion after tax) will result in a charge of approximately EUR 1.1 billion after tax to be recognised in 2014. Of this impact, EUR 0.4 billion will be attributed to NN Group.

Accounting for GMDB in Japan Closed Block VA

NN Group applies fair value accounting on the reserves for Guaranteed Minimum Death Benefits (GMDB) of the Japan Closed Block VA from 1 January 2014. This improves the alignment of the carrying value of the GMDB reserves with their market value, better reflects the economic value of these guarantees and improves the alignment of the accounting for the guarantees with the accounting for the related hedges. Furthermore, this move makes the accounting for the GMDB consistent with the accounting on the reserves for Guaranteed Minimum Accumulation and Withdrawal benefits. As at 1 January 2014, the difference between the current carrying value and the estimated fair value of the GMDB reserves was EUR 219 million (before tax). Implementation of fair value accounting for GMDB represents a change in accounting policy under IFRS-EU with a transitional impact of EUR 165 million after tax being reflected only in Shareholder’s equity as of 1 January 2014. Results for comparative periods will be restated accordingly.

Proposed appropriation of result and subsequent events continued

DISCLAIMER

Certain of the statements contained in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of NN Group's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit ratings, (18) NN Group's ability to achieve projected operational synergies and (19) the other risk factors and uncertainties detailed in the risk factors section contained in the most recent annual report of ING Groep N.V.

Any forward-looking statements made by or on behalf of NN Group speak only as of the date they are made, and, NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

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