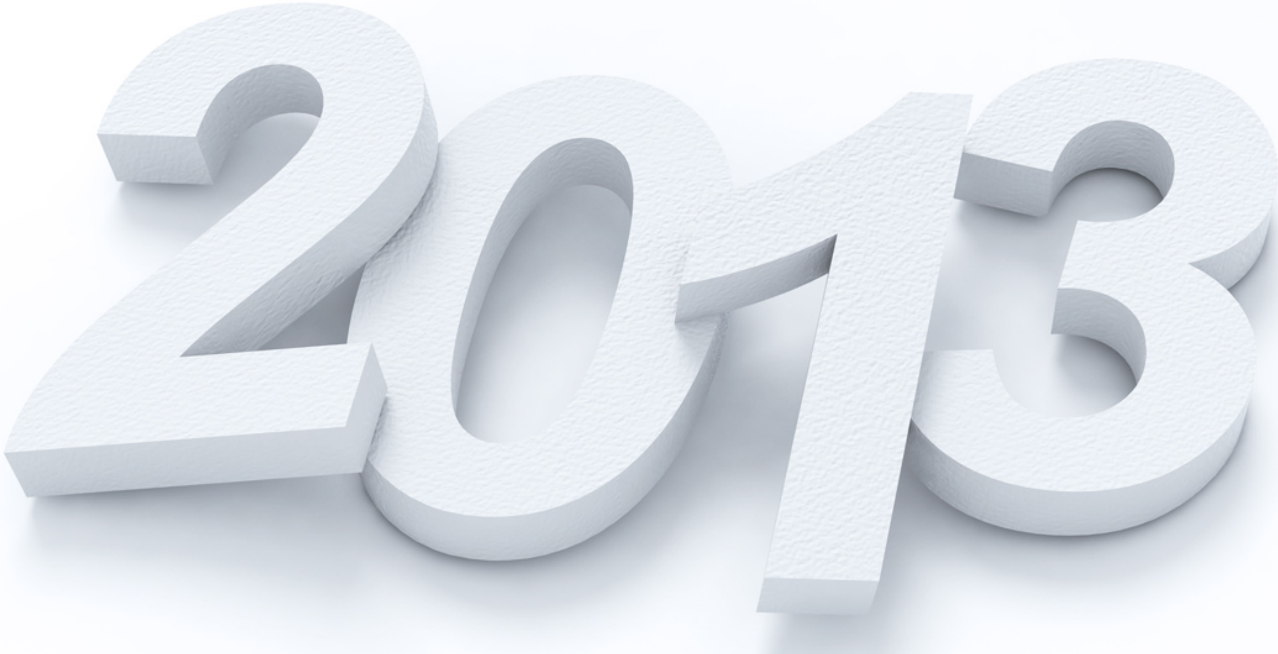
SRLEV NV



ANNUAL REPORT

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Key figures

Table 1: Key figures SRLEV

In € millions	2013	2012	2011	2010
Result				
Net premium income	2,231	2,468	2,644	2,819
Investment income	1,304	1,507	1,355	1,421
Investment income for account of policyholders	628	1,512	(39)	815
Other income	123	87	250	198
Total income	**4,286**	**5,574**	**4,210**	**5,253**
Net result	**(416)**	**4**	**206**	**300**
Balance sheet				
Total assets	51,989	54,732	51,577	50,254
Investments	31,077	32,475	30,772	31,799
Investments for account of policyholders	13,491	13,265	12,443	12,641
Total equity	2,688	3,145	4,014	3,767
Insurance contracts	39,727	40,447	37,375	37,070
Ratios				
New annual premium equivalent (in € millions)	172	310	376	317
Operating cost/premium ratio	12.2%	11.3%	10.9%	10.9%
Regulatory solvency	187%	211%	223%	206%

Report of the Management Board

1 Foreword

Facing our new future with confidence

SNS REAAL has undergone a year of radical change following its nationalisation on 1 February 2013. The nationalisation had far-reaching consequences for society, shareholders and subordinated creditors. At the same time, it brought clarity for both our customers and employees. We have worked hard towards the new reality.

As a life and pensions insurer, it is therefore appropriate that we adopt a modest stance. Aid provided by the Dutch State, the taxpayer, enabled SNS REAAL NV and, as a consequence, SRLEV NV to devote its attention to regaining the confidence of its customers and society. We will continue to do so in 2014 by consciously choosing to focus on our social utility function.

As a management team, we are aware of the impact that the events of 2013 had on our employees. The wave of media coverage at the time of and following the nationalisation has had a significant impact.

I am, therefore, appreciative of the positive manner in which employees rolled up their sleeves and worked hard to restore customer satisfaction. In the coming year, we will again be calling upon the flexibility and resilience of our employees.

The year 2013 resulted in a net loss of € 416 million largely due to impairments on intangible assets and a lower underlying result. The regulatory solvency of SRLEV decreased from 211% at year-end 2012 to 187%, above our set target level of at least 175%.

SNS REAAL worked constructively with the Ministry of Finance on drawing up a restructuring plan, which was submitted to the European Commission on 19 August 2013.

Following submission of the plan, preparatory work was undertaken during the remainder of 2013. On 19 December 2013, the European Commission granted its final approval of Dutch state aid and the restructuring plan. The separation of Property Finance became a reality on 31 December 2013.

Over time, SNS REAAL will cease to exist in its present form and the bank and insurer will continue to operate as separate companies. The restructuring plan is the basis for the future and provides clarity for our customers and employees.

Following the preparations in 2013, we aim to achieve significant progress in creating an independent insurer in 2014, while at the same time preparing the Insurance activities of SNS REAAL, including SRLEV, for divestment. Part of the staff of the holding company of SNS REAAL will transfer to the insurer. We anticipate that this allocation process, will have been completed in the summer of 2014. The IT department will follow mid-2015.

Although the aftermath of the nationalisation and the preparation and execution of the EC restructuring plan required considerable attention, we continued to build upon and enhance our core activities.

The common focus of all SRLEV brands has been on regaining the trust of our customers. We will once again focus on values embedded in our company since its establishment, offering our customers a choice of savings, life insurance, pension and mortgage products. We strive to be a company that makes insuring accessible comprehensible and transparent. We achieve this by consciously involving our customers in the development of our products and services, but also through the efforts of our colleagues who believe in these products and services. Social utility is embedded in the strategies of REAAL (Financial resilience) and Zwitserleven (Simplicity for Later). Together with our core value of CARE!, this ensures that Corporate Responsibility is integrated into our business strategy.

In the field of sustainability we were able to make progress in a number of areas during 2013. We have accomplished that our investment policy – carried out by SNS Asset Management – was once again declared the most sustainable in the Netherlands. Zwitserleven and REAAL were ranked first and second in the survey into Responsible Investment by Dutch insurance companies, conducted by the Dutch Association of Investors for Sustainable Development (VBDO).

We believe that our guiding principle should always be to take our customers' interests seriously. Customer satisfaction in the financial sector as a whole has been under pressure for a considerable period of time. Our brands REAAL and Zwitserleven have undertaken a considerable number of initiatives to serve and safeguard the interests of customers. We thus offer accessible, easy-to-understand and safe products and services with limited risk.

For the REAAL brand our principal aim is to increase customers' financial resilience. We do this by helping our (potential) customers to make well-informed choices about their finances and by making complex financial situations manageable and comprehensible.

In 2013, at REAAL Life we worked hard to complete the compensation scheme for customers with unit-linked policies. Besides this we worked hard to reach all customers (via phone or mail) helping them to obtain advice on rebalancing their current insurance policy.

At Zwitserleven, we want to give people the opportunity to shape their own financial future, in a simple and accessible way. Our strategy 'Simplicity for Later', initiated in 2013, will help our customers to do just that. We show people how they can think ahead with regard to their retirement planning. We put a considerable effort into this just as we do into making pensions structurally easier to understand and more personal.

An important aspect of the 'Simplicity for Later' strategy is the focus on defined contribution products. Such products will ultimately replace the traditional defined benefit products which we believe will be too expensive and complex due to the strong increase in longevity and current low interest rates. We offer excellent service and comprehensible and clear information and communication that enables customers to make well-informed choices about building up their pension benefits.

Worries about the future of SNS REAAL obviously had a negative effect on the Net Promoter Score (NPS) of our brands. In the months following the nationalisation, our employees (most specifically in the Contact Centres) worked hard to regain consumer confidence. Their work is reflected in a slow rise in our NPS scores and - more specifically – a more positive response from customers who have recently been in contact with our company.

In 2013, at SRLEV we continued with the previously initiated simplification of our product offerings. This is reflected in a reduction in the number of products and simplification of the product terms. At REAAL, at the request of our customers, we simplified the conditions to switch to another product. In 2013, a great deal of attention was again paid to process improvements, allowing us to work in a more customer-focused way.

We seek inter-brand cooperation for the benefit of our customers. In 2013, in addition to the Premium Pension Institution (PPI), Zwitserleven introduced a savings product called Zwitserleven Sparen, developed in collaboration with SNS Retail Bank.

As an insurer, we are also confronted with dilemmas and issues to which we do not immediately have answers. Such matters are discussed with the SNS REAAL Advisory Council, which was established in 2012 and meets several times a year. Members of the Council are drawn from a range of sectors in mainstream society. It serves to provide us with additional critical opinions and advice.

Every person is unique. Offering a broad range of brands, SRLEV NV is here to serve its customers. The commitment and dedication of our employees helps to create long-lasting relationships with our customers. As a management team, we attach great importance to development and training, a good work-life balance and responsible remuneration. Satisfied employees lead to satisfied customers.

Notwithstanding the considerable increase in workload, SRLEV's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Solvency

II), an increased number of inquiries from regulators and regulatory requirements, necessary investments in the data warehouse infrastructure and organisational changes within SRLEV, placed pressure on the available qualitative attention for the internal control framework, specifically with respect to the linkage between internal control at group and business units level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team of the insurer will give further substance to an integrated control framework.

With the publication of our annual results and this annual report, we have literally closed the books on the year of the nationalisation.

We have taken our first steps on the road towards a new future for REAAL and Zwitserleven. A journey that will involve many steps, and that will most probably lead to cooperation and further consolidation in the insurance industry. The most important thing, however, is our continued focus on being a responsible insurance company that takes its customers' interests seriously and strives for financial solidity. Together with my colleagues in the management team and all our other colleagues in the company, I face the future with confidence.

To continue to further regain the trust of our customers is our chief ambition. I would like to thank our customers for the confidence they have shown in our insurance products and services.

Wim Henk Steenpoorte, Chairman

2 Profile and brands

SRLEV is a financial service provider in the field of insurance. With its Insurance activities SRLEV offers two brands: Zwitserleven and REAAL. Our brands focus primarily on the Dutch insurance and pension markets.

2.1 General

2.1.1 Rooted in society

SRLEV is strongly rooted in Dutch society. The trade unions founded insurance companies Concordia and De Centrale, which later merged into REAAL NV. SRLEV is a subsidiary of REAAL NV.

As a result of the credit crisis the government was forced to intervene in companies, of which we were one. In the years that lay behind us society was focused to much on increasing prosperity and income. SRLEV wants to take up its role in society and return to its social roots: a financial services provider that makes people conscious of money matters and insures them against risks in an affordable manner. We have an important social utility function that requires us to uphold the highest ethical standards. After all, SRLEV watches over other people's money; money that will often be needed at a future moment, when people are weak (ill, old age, demise). Keeping an eye on our moral compass allows us to create a well-functioning financial services sector that is embedded in society. Only if financial service providers, together with their stakeholders, take simplicity in finance seriously, can we contribute to restoring faith in the financial sector in the Netherlands.

SRLEV has a balance sheet total of € 52 billion, making it a relevant player in the Dutch market. Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments, 'NLFI') is the sole shareholder of SNS REAAL NV and her subsidiary SRLEV NV.

2.1.2 Simplicity in finance

SRLEV aims to make business simple, understandable and transparant. We do this by actively engaging our customers in developing our products and services. But also with the assistance of committed employees, who believe in these products and services.

2.1.3 Customer focus

We work hard for our customers, who encompass both private individuals and business customers. By offering sound customer service and support, we build on an optimal relationship with each and every customer: accessible, transparant and fairly priced. We ultimately aim for sustainable relationships with our customers but also with society.

2.2 Our two brands

2.2.1 REAAL

REAAL

REAAL believes that financial services can be improved upon and puts all its efforts into helping its customers to get ahead. Putting the interests of the customer first, our service is personal, clear and equal, whether you are buying a house, running a business or managing your financial future. REAAL cooperates with financial advisors who guarantee objective advice. Products: savings, investments, insurance (individual life). www.reaal.nl

2.2.2 Zwitserleven

Zwitserleven

Zwitserleven has been the leading Dutch pension provider since 1901. Zwitserleven looks after the pension capital of people and applies its knowledge and expertise to give its customers a responsible future. By thinking ahead now, Zwitserleven aims to enable its customers to enjoy an unconcerned retirement and to experience the Zwitserleven Feeling. Product: pension insurance. www.zwitserleven.nl

3 Strategy and organisation

The strategy for the various business units is described in Chapter 7 Developments brand REAAL and Chapter 8 Developments brand Zwitserleven.

3.1 Sale of the Insurance activities

The business units of SNS REAAL are preparing themselves for a separate future. In organisational terms, the separation of SNS REAAL means that the support from the Group to the business units will be phased out, including accounting, control, human resources, fiscal affairs, legal affairs and IT. To the extent that and for as long as SNS Retail Bank, REAAL and Zwitserleven do not stand on their own, SNS REAAL will continue to provide support from the group in the area of management and control of financial viability, the risk profile and shared values.

The insurance activities of REAAL and Zwitserleven are incorporated into REAAL NV. In SRLEV NV the main part of the business units REAAL life (insurance) and Zwitserleven (pensions) are combined. The asset manager SNS Asset Management, which is still a Group activity at the end of 2013, will be transferred to REAAL NV in the course of 2014. SNS REAAL will divest REAAL NV in accordance with the decision of the European Commission. REAAL NV may be able to play a part in the expected consolidation in the Dutch insurance market. The Dutch State and SNS REAAL have committed themselves to use the proceeds of REAAL NV to reduce the double leverage in SNS REAAL's balance sheet. The holding company of SNS REAAL will be subsequently dismantled.

3.2 Mission, core value and responsibility

SRLEV's mission is Simplicity in finance. This reflects the origins of our company, which began over 100 years ago. Even then, transparency, simplicity and solidarity were our guiding principles. We care about the fundamentals in people's lives, education, a buffer for unexpected expenses, compensation in the event of losses and an adequate pension. With Simplicity in Finance, this is what we are working towards. We want to act responsibly for all stakeholders in our company. Our core value CARE! stands for the responsibility we are prepared to take for our customers, for each other, for our profits and for society.

Dutch financial institutions are subject to an extensive system of laws and regulations that safeguard the quality and security of financial products and services. Compliance is obviously required. Corporate Responsibility (CR), however, goes beyond this. Based on our convictions and our sense of responsibility, and in dialogue with our stakeholders, we hope to have a positive effect on society in two ways: boost financial resilience through our products and advice and improving the environment in which people live. Our policy includes consideration of the (potential) actual positive social impact that we as a company can achieve.

3.2.1 Financial resilience

Most importantly, we stimulate people to become financially resilient by the quality of our service. The guiding principle in this respect is the concept of putting customers's interest first. We strive to offer our customers insight, clarity and prospects, so that they can make the right financial decisions, big or small. Key elements of this service are:

- providing simple, accessible and safe products and services with limited risk;
- ensuring that customer experiences and complaints are used for improvement;
- enabling customers to make responsible choices by providing comprehensible product information and/or appropriate advice;
- systematic testing of customer's interests and customer integrity;
- measuring and improving customer satisfaction.

In order to increase people's financial resilience and independence, we strive to provide financial education to those who need it most, whether they be adults, young people or children. We do this through our foundation Samen voor Later.

We offer appropriate assistance to customers in financial difficulties, and we strive to contribute to the reform of the financial sector with initiatives designed to promote well-being and the restoration of confidence. We wish to increase our transparency and social contribution, ensure stability, and to offer services that put the well-being of our customers first.

3.2.2 Sustainable living environment

We endeavour to achieve a sustainable living environment by:

- promoting sustainable innovation in society, through products and marketing actions that contribute to sustainable living, personal well-being and energy efficiency;
- responsible investment of our own funds and the funds of our customers. We only invest in companies, government bodies and institutions that respect the principles we have established with respect to the environment, the climate, social issues and corporate governance. The principles are established in the Fundamental Investment Principles of SNS Asset Management our asset management organisation, which are available for inspection at www.snsam.nl;
- ensuring the responsible conduct of our business, in which we take account of potential environmental effects and positively affect our environment and the well-being of our employees.

3.3 Putting the customer’s interests first

In 2013, our services were primarily focused on putting the customer’s interests first. We have shared our methods designed to achieve and ensure this in detail with the Dutch Authority for the Financial Markets (AFM). AFM requests us to carry out a self-assessment each year, and provides feedback on our results. This has led to many improvements each year, the most important can be found at www.snsreaal.nl. REAAL and Zwitserleven took a large number of initiatives to better serve and guarantee the customer's interest.

The AFM investigated six large insurers in the area of customer's interest in 2013. Beginning 2014, REAAL received feedback on a number of items like customer information, aftercare in unit-linked insurances and complaints management. On all these points REAAL scored clearly higher than in 2012. In addition to describing the many improvements achieved in 2013, REAAL also describes the points of interest in its self-assessment. We were not sufficiently able to induce customers to assess their unit-linked insurance policies and, with the help of an advisor, adjust them as necessary, despite an intensive communication policy (see section 7.2.3). The wide range of products that are no longer sold are an obstacle to efficient and customer-oriented management. REAAL is working on standardising its systems and products to improve this situation. REAAL trusts that her efforts in recent years will translate in an increased customer satisfaction based on the Net Promotor Score (NPS), (see section 3.4).

Zwitserleven has initiated changes in its conduct and process management, but these are time consuming. As with REAAL, Zwitserleven would like to have more insight in customer data in order to more effectively meet the customer’s needs. Zwitserleven would like to have an integrated CRM system offering a complete overview of communications and products for each customer. However, this requires substantial investment in IT. The primary investment focus is currently on a new administration system, which will improve efficiency, and thereby the costs of product management. This is also in the customer’s interests.

3.4 Customer satisfaction

Paying attention to our customers and improving our service is very important to us. In order to monitor the effect of our efforts we use NPS (Net Promotor Score) to measure customer satisfaction. This measures the number of customers who are so enthusiastic about the brand that they would recommend it to friends and acquaintances. The number of customers that advise friends and acquaintances to avoid the brand is deducted from the result. The uniform NPS measurements, based on a representative sample, are carried out by an external agency twice a year.

Customer satisfaction in the financial sector as a whole has been under pressure due to the developments relating to the financial crisis. A limited number of insurers had a positive NPS score out of all those surveyed in 2013. It is likely that the two brands of SRLEV have seen a reduction in their NPS score in the light of developments associated with the nationalisation of SNS REAAL. The measurements show that customers who have more recently been in contact with the brand, for example via the telephone helpdesk, are on average more satisfied than other customers. Measurements at the business units also indicate this. The brands therefore aim at intensifying customer contact, also through various types of dialogue.

See Chapter 7 Developments brand REAAL for details of the NPS for REAAL and Chapter 8 Developments brand Zwitserleven for details of the NPS for Zwitserleven.

4 Nationalisation of SNS REAAL

This chapter provides the outline of the nationalisation of SNS REAAL. Section 4.1 provides details of the events leading to the nationalisation, an outline of the nationalisation decree and the nationalisation measures for SNS REAAL as a group. The effects of the temporary and final decision of the European Commission, in section 4.2, are described for SNS REAAL as a group.

4.1 Nationalisation

In January 2013, the Dutch Central Bank (DNB) informed SNS REAAL, the ultimate parent company of SRLEV NV, of its conclusion that the capital position of SNS Bank NV was insufficient to cover the company's current and possible future risks. SNS Bank NV was requested to present by 31 January 2013 a final solution for its capital position that according to the judgement of DNB would provide a sufficient degree of certainty of succeeding and that would furthermore result in supplementing the capital deficit that existed according to DNB. SNS Property Finance BV (Property Finance) had been an important factor in the arising of the capital deficit. In the opinion of DNB, the proposal of SNS REAAL NV offered insufficient certainty that the identified capital deficit could be addressed in the short term. DNB subsequently informed the Ministry of Finance that it no longer considered it sound for SNS Bank NV to continue to carry out its banking operations.

On 1 February 2013, the Minister of Finance (the Minister) decreed (the Decree) by virtue of Articles 6:2 and 6:4 of the Dutch Financial Supervision Act to expropriate:

- all issued shares in the capital of SNS REAAL NV;
- all core Tier 1 capital securities issued by SNS REAAL NV to Stichting Beheer SNS REAAL (Stichting securities);
- all subordinated bonds of SNS REAAL NV and SNS Bank NV, including the participation certificates issued by SNS Bank NV;
- subordinated private debts of SNS REAAL NV and SNS Bank NV.

In the Decree the Minister set out that he had concluded that the stability of the financial system had been placed at serious and imminent risk by the situation in which SNS REAAL found itself prior to 1 February 2013.

All shares, Stichting securities and subordinated bonds were expropriated for the benefit of the Dutch State (the State). The expropriation of subordinated private debts was effected by expropriating the corresponding debts relating to liability capital components of SNS REAAL NV and SNS Bank NV for the benefit of Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Private Debt Settlement Foundation SNS REAAL, 'Stichting AOS'). In the Decree, the Minister explained that the capital components of the subordinated private debts had been expropriated in the name of a separate foundation in order to avoid these debts being transferred to the State. Through provision under Article 6:1 of the Financial Supervision Act, SNS REAAL has been appointed as sole director of Stichting AOS. The Decree came into effect at 08.30 a.m. on 1 February 2013. At that moment, the expropriated securities and capital components were legally transferred to the State and Stichting AOS respectively.

On 19 December 2013, the European Commission ('EC') approved the measures of the Minister as submitted by the Ministry of Finance in the restructuring plan on 19 August 2013.

For the insurance activities, the nationalisation has as an implication that there is a temporary ban to make interest payments on hybrid instruments which are issued by the insurer.

In April 2011, SRLEV NV issued subordinated bonds for an amount of € 400 million, with a maturity date in 2041. The terms and conditions are set out in a prospectus dated 12 April 2011. In July 2011, SRLEV NV issued subordinated bonds for an amount of CHF 105 million with a perpetual maturity. The terms and conditions are set out in a prospectus dated 15 July 2011.

The European Commission decided not to allow SRLEV NV to pay the coupon due on these subordinated bonds on the interest payment dates (15 April 2013, 19 December 2013 and 15 April 2014 respectively). Therefore, SRLEV makes use of its optional deferral right based on condition 4(e) of the terms and conditions not to pay such coupon. This decision confirms the decision of the European Commission of 22 February 2013 in which the State aid measures as a result of the nationalisation of SNS REAAL, the holding company of SRLEV, on 1 February 2013 have been preliminary approved with the provision that a coupon ban applies for those payments that do not stem from a legal obligation. Unpaid interest shall as long as it remains unpaid constitute arrears of interest and shall bear the same rate of interest as is payable on the bonds.

A detailed explanation of the EC's decision is provided in section 4.2.

Changes to the Supervisory Board

From 1 February 2013, the vice chairman of the Supervisory Board, Piero Overmars, temporarily acted as chairman of the Supervisory Board until he stepped down on 1 November 2013.

On 1 November 2013, Piero Overmars, Jaap Lagerweij, Robert Jan van de Kraats and Herna Verhagen resigned from the Supervisory Board of SNS REAAL NV. At the Extraordinary General Meeting of Shareholders held on 18 October 2013 it was decided to reduce the number of Supervisory Board members of SNS REAAL NV per this date to seven members. With effect from 1 November 2013, Jan Nooitgedagt, Jan van Rutte and Monika Milz were appointed as Supervisory Board members to the ensuing three remaining vacancies on the Supervisory Board. Mr Nooitgedagt was also appointed Chairman of the Supervisory Board. The new members were also appointed to the Supervisory Board of SNS Bank NV, SRLEV NV and REAAL NV. Mrs Milz was appointed in accordance with the reinforced right of recommendation of the Central Works Council.

Role NLFI in governance structure

Since 31 December 2013, Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments, 'NLFI') holds 100% of the shares in SNS REAAL NV. NLFI is responsible for the management of the shares and the exercise of all rights associated with the shares, including voting rights, in accordance with the law and the articles of association of NLFI. Despite possessing all voting rights attached to the shares, in accordance with the law and the articles of association of NLFI all significant and fundamental decisions must first be approved by the Minister.

Based upon the law and the articles of association of NLFI, NLFI does not possess the right to dispose of nor encumber the shares; these rights can only be obtained after receipt of formal authorisation from the Minister.

For more details on nationalisation and its implications, we refer to Chapter 5 Nationalisation and its implications in the Annual Report 2013 SNS REAAL.

4.2 Temporary and final decision of the European Commission

In its decision of 22 February 2013, the European Commission granted temporary approval for the capital injection of € 2.2 billion in SNS REAAL NV, € 1.9 billion of which was to be passed through to SNS Bank NV, and the bridge loan issued by the State to SNS REAAL NV in the amount of € 1.1 billion. Final approval was granted on 19 December 2013, based on the restructuring plan submitted by the Ministry of Finance on 19 August 2013.

In line with the restructuring plan submitted, the State commits to two structural measures regarding (the balance sheet of) SNS REAAL:

a Separation of the Property Finance activities
b Divestment of the insurance subsidiary REAAL NV, which includes all insurance and asset management activities of SNS REAAL.

The separation of the Property Finance activities results in a substantial reduction of risk-weighted assets and is an important measure to further restore viability of SNS REAAL. It will also facilitate access to capital market funding for SNS Bank NV. The transfer of the Property Finance activities to the State took place on 31 December 2013.

SNS REAAL commits itself to the divestment of the insurance subsidiary REAAL NV, taking into account the risk that this divestment could result in a significant loss. The State and SNS REAAL commit to use the future proceeds of the divestment of REAAL NV to reduce the double leverage on the balance sheet of SNS REAAL. The holding company SNS REAAL will be wound down. The entity resulting from the restructuring will be a standalone bank focused on banking for retail and self-employed clients. In the course of time, the State is committed to privatising SNS Bank NV.

The decision of 22 February 2013 stipulated amongst other that until the final decision SNS REAAL was not permitted to carry out any acquisitions (acquisition ban) or make payments on hybrid instruments (hybrid debt call and coupon ban). In its final decision of 19 December 2013, the EC set a number of conditions and restrictions which, unless otherwise stated, will apply until the end of the restructuring period in December 2017. The principal conditions and restrictions amongst other are:

- An acquisition ban will apply for a period of three years starting from the date of the EC decision.
- SNS REAAL will not advertise the fact that it is State-owned or make any reference to any State support received in its communications with existing or potential customers or investors.
- SNS REAAL will refrain from making any payments on the hybrid debt instruments outstanding at the time of the EC decision, unless those payments stem from a legal obligation, and will not call or buy back those instruments without prior approval of the European Commission.
- Restrictions apply to the remuneration of employees and senior management until the end of the restructuring period or until SNS REAAL has repaid the State aid.
- SNS REAAL commits to transfer the administrative structure currently borne by the holding company to the bank and the insurance company
- SNS REAAL commits to the phasing out of any financial interdependence between the banking and the insurance activities.

5 Outlook for 2014

Consumer and producer confidence are increasing, in the Netherlands and in the rest of the eurozone. The eurozone continues to see economic growth. In the Netherlands, however, growth will be modest because consumers, banks and the government are giving priority to the further restoration of their financial situation. Unemployment and the housing market could stabilise in 2014.

REAAL and Zwitserleven are increasing the viability of their activities with a new strategy, and, together with SNS Asset Management, they are preparing for a future outside the Group. SRLEV will phase out its dependence on support from the Group staff departments of SNS REAAL. Although there is a possibility of a slight increase in interest rates, the solvency will continue to remain under pressure due to the low level of long-term interest rates.

5.1 Financial markets in 2013

5.1.1 General

The global economy is gaining momentum, in the wake of the United States. Continuing new job creation is leading to an acceleration in wage growth. Higher consumption can then generate increased economic activity, initiating an upward spiral. Growth of the eurozone is continuing, mainly due to good performance by the German economy. The question is whether France will be able to benefit from this, as reforms in that country are long overdue. In the peripheral euro countries, confidence, and thereby the potential for recovery, is increasing.

5.1.2 Short-term interest rate will remain low, long-term rate could rise

If the positive development of the US economy continues, a further increase in long-term interest rates is likely. The US is the leading market here. The US long-term interest rate is too low in relation to economic growth and inflation. The Fed’s ‘tapering’ of its bond purchases could cause long-term rates to rise. Based on the outlook of the ECB, the modest economic growth and the low forecast for inflation, the potential for higher yields is limited. For 2013 we look back at a year of continued low interest rates and therefore a year with relatively low investment income.

5.2 Impact of laws and regulations

New legislation and regulation are resulting in increasing costs in the financial sector, for the maintenance of capital, risk management, internal organisation, the resolution levy and/or taxation. Good and close supervision is a good thing, but not always effective and efficient.

Solvency II has been a priority in the insurance industry for more than 10 years now. 2013 showed significant developments in its last quarter and this resulted in clear direction for the near future. In October 2013, the Dutch government decided to implement the Theoretisch Solvabiliteits Criterium (Theoretical Solvency Criterium, 'TSC') as a transitional solvency framework for the Dutch insurance industry. In November 2013, however, the EC trialoque resulted in agreement on the last remaining uncertainties surrounding Solvency II and set a clear implementation date on 1 January 2016.
This implies that for the management of SRLEV NV and its subsidiaries, as of 1 January 2014, Solvency II will soon be the dominant paradigm.

Zwitserleven is dealing with numerous changes to its products and administration in connection with the Witteveenkader, which sets the maximum amount that can be deducted from tax for the accrual of a pension. The arrangements approved by the Dutch Senate at the end of 2013 on the basis of the Pensions Agreement are also putting pressure on the organisation.

5.3 SRLEV

5.3.1 Business unit REAAL: More direct contact and dialogue with customers

REAAL has introduced a new strategy in 2014 that focuses on more direct contact and dialogue with customers, including dialogue via an online customer community. With more market and customer information, REAAL can defend and strengthen its market positions more effectively. REAAL want to strengthen the distribution via qualified intermediaries, with different service concepts that fit well into the needs of customers and intermediaries. For its existing life portfolio, REAAL is focusing on optimising value through cost control by means of standardising its products and systems.

The total market for individual life insurance policies is shrinking systematically due to the gradual maturing of unit-linked insurance policies that were concluded in the past. Sales of term life insurances will gradually move towards the banks and the direct channel at the expense of sales via the intermediary advisory channel. REAAL will take measures to respond to this trend so that it can defend its leading position in this market.

5.3.2 Business unit Zwitserleven: lower costs and more personalisation of pensions

The pensions market remains under pressure in 2014 and is expected to fall slightly. Growth of contribution income will be negatively affected by new tax restrictions on pension accrual, limited salary increases and lower confidence in group pension accrual. The capping of pension accumulation above € 100,000 will be offset in the Pensions Agreement to some extent by a so-called 'net annuity', which reflects the trend towards more flexibility and optional features based on personal responsibility. Zwitserleven takes a positive view of this measure, and hopes to see further personalisation of the pensions market.

Due to the low level of long-term interest rates, the liabilities remain high and the solvency and profitability of pension insurers remain under pressure.

With a new strategy, Zwitserleven intends to respond to the changing market conditions. The priorities in 2014 are:

- less tailor-made work and more cost-effective standardised products;
- simple products focusing on personal supplementary accrual;
- cost reductions through standardisation of systems and processes and purchase from third parties;
- encouragement of the transition from guaranteed pensions to defined-contribution schemes, which will mean that pensions continue to be more sustainable and affordable.

6 Financial outlines

Table 2: SRLEV

In € millions	**2013**	2012	Change%
Result			
Individual regular life premiums	1,101	1,207	(9%)
Pension regular life premiums	833	864	(4%)
Individual single life premiums	219	217	1%
Pension single life premiums	242	336	(28%)
Premium income	**2,395**	**2,624**	**(9%)**
Reinsurance premiums	164	156	5%
Net premium income	**2,231**	**2,468**	**(10%)**
Net fee and commission income	62	65	(5%)
Share in result of associates	1	10	(90%)
Investment income	1,304	1,507	(13%)
Investment income for account of policyholders	628	1,512	(58%)
Result on financial instruments	60	12	400%
Total income	**4,286**	**5,574**	**(23%)**
Technical claims and benefits	4,222	4,767	(11%)
Acquisition costs for insurance operations	77	91	(15%)
Impairment charges	51	286	(82%)
Total operating expenses	286	293	(2%)
Other interest expenses	207	138	50%
Other expenses	1	-	0%
Total expenses	**4,844**	**5,575**	**(13%)**
Result before tax	**(558)**	**(1)**	**(55700%)**
Taxation	(142)	(8)	(1675%)
Minority interest	-	3	(100%)
Net result attributable to shareholders and security holders	**(416)**	**4**	**(10500%)**
One-off items	(571)	(387)	(48%)
Adjusted net result attributable to shareholders and security holders	**155**	**391**	**(60%)**
Operating cost/premium ratio	12.2%	11.3%	8%
New annual premium equivalent SRLEV	172	310	(45%)

Adjusted for the impact of one-off items, net profit declined to € 155 million in 2013 from a net profit of € 391 million in 2012. The decline was driven by lower underlying performance at the Insurance activities.

One-off items negatively impacted REAAL NV's 2013 net result with € 571 million compared to € 387 million negative impact in 2012, in both years for the majority consisting of impairments of VOBA and the additional provision for the IFRS shortfall. Including one-off items, SRLEV NV's net result amounted to € 416 million negative (2012: € 4 million positive).

6.1 Impact of one-off items

One-off items in 2013 amounted to € 571 million negative, mainly consisting of impairment VOBA of € 389 million and the additional provision for the IFRS shortfall of € 146 million negative.

Table 3: Breakdown impact of one-off items on SRLEV's net result 2013

In € millions	2013	2012
Net result 2013	**(416)**	**4**
Impact nationalisation:		
Direct impact of nationalisation measures	(6)	-
Impairments:		
VOBA REAAL Life and Zwitserleven	(389)	(154)
Goodwill	-	(64)
Distribution network	-	(18)
Software Zwitserleven	(15)	-
Tradename	-	(95)
Subtotal impairments	**(404)**	**(331)**
Other one-off items:		
Addition provision shortfall IFRS LAT	(146)	-
Provision unit-linked policies	(15)	(56)
Subtotal other one-off items	**(161)**	**(56)**
Total one-off items 2013	**(571)**	**(387)**
Adjusted net result 2013	**155**	**391**

6.1.1 Impairments of intangible assets

The net impact of impairments of intangible assets amounted to € 571 million negative. This mainly consisted of an impairment of the remaining VOBA (€ 389 million net) driven by the outcome of the IFRS liability adequacy test (LAT). This LAT compares the market value and the IFRS carrying amount of insurance liabilities and related assets. By using shadow accounting, the positive fair value reserve of the fixed-income portfolio is used to increase the IFRS carrying amount of the insurance liabilities. In 2013, the LAT shortfall decreased compared to year-end 2012 due to an increase in interest rates, partly mitigated by adjustments in models and parameters. However, the fair value reserve of the fixed-income portfolio decreased even more sharply. As a result, the fair value reserve of the fixed-income portfolio could not fully compensate the LAT shortfall. The remaining shortfall of € 732 million pre-tax was charged to the income statement of which € 157 million at Zwitserleven and € 392 million at REAAL Life, as an impairment of the remaining VOBA of € 585 million pre-tax (€ 439 million net), which is irreversible and for the remaining shortfall by an addition to the technical provision for an amount of € 147 million pre-tax (€ 110 million net). The latter is reversible in case of a future decrease in the IFRS LAT shortfall. Figures for the second-half of 2012 had also included an impairment of the VOBA of € 129 million net related to the shortfall of the IFRS LAT.

There was an impairment of € 15 million net (€ 20 million pre-tax) of internally developed and capitalised software in the light of its changed strategy. Zwitserleven's management chose a new strategic direction, with an increased focus on the Defined Contribution (DC) market and with an increased number of products outside the second pillar. The result is a new balance between new markets in which DC, PPI and individual products prevail and the more traditional markets.

6.1.2 Other one-off items

In addition to the one-off impact of nationalisation measures (€ 6 million negative) and impairments of intangible assets (€ 404 million negative), the net impact of other one-off items amounted to € 161 million negative, of which € 146 million consisted of an addition to the technical provision related to the IFRS LAT shortfall. Furthermore, there was an additional € 15 million net charge (€ 20 million pre-tax) related to the unit-linked policies settlement reached in 2008.

6.2 Underlying result SRLEV

Table 4: Underlying result SRLEV

In € millions	2013	2012	Change
Net result attributable to shareholders and security holders	(416)	4	(10500%)
Impact of one-off items	(571)	(387)	(48%)
Adjusted net result attributable to shareholders and security holders	**155**	**391**	**(60%)**
Gains, losses and impairments on equity portfolio	49	24	104%
Gains, losses and impairments on fixed-income securities	67	182	(63%)
Result on financial instruments	45	19	137%
Changes in insurance contracts due to movements of fair value items	(119)	(6)	(1883%)
Total net impact investment portfolio and hedges	**42**	**219**	**(81%)**
Amortisation VOBA and other intangible assets	(28)	(52)	46%
Underlying net result SRLEV	**141**	**224**	**(37%)**

Adjusted for one-off items, SRLEV's 2013 result of € 155 million was sharply lower due to a lower net impact from gains, losses and impairments on the investment portfolio and hedges and a lower underlying result This was partly compensated by lower amortisation of VOBA and other intangible assets following impairments of VOBA in 2012 and 2013.

The total net impact from gains, losses and impairments on the investment portfolio and hedges declined to € 42 million positive driven by a substantially lower result on financial instruments and higher negative results of changes in insurance contracts due to movements of fair value items which mainly consisted of the impact of shadow accounting. This was partly compensated for by higher realised gains on bonds and higher gains on the equity portfolio.

SRLEV's underlying result of € 141 million was € 67 million lower. mainly driven by lower direct investment income due to the absence of a gain on the settlement of Lehman collateral, lower reinvestment yields and the impact of an additional cost allocation from the holding company and due to lower mortality, interest and cost results (including the additional cost allocation from the holding company). Furthermore, the result for the first-half of 2013 included an additional charge for a provision related to compensation for investment-based pension contracts.

SRLEV's reported net result of € 416 million negative also declined due to a higher negative impact from one-off items which consisted of impairments of VOBA, 389 million), a € 6 million loss due to the expropriation of a subordinated bond of SNS Bank, an addition to the technical provision (€ 146 million), related to the IFRS LAT shortfall an impairment of internally developed and capitalised software (€ 15 million) and a € 15 million charge for settlement of unit-linked policies. The 2012 net result had also been negatively impacted by impairments of goodwill and the distribution network and an additional provision for the unit-linked policies based on the settlement reached in 2008.

6.3 Income

Table 5: Breakdown investment income for own account SRLEV

Gross amounts In € millions	2013	2012	Change
Total investment income	1,304	1,507	(13%)
Realised gains/losses on equities	69	57	21%
Realised gains/losses on fixed income securities	107	262	(59%)
Other realised gains/losses	16	3	433%
Realised gains/losses	**192**	**322**	**(40%)**
Unrealised gains/losses	(21)	(14)	(50%)
Direct investment income	**1,133**	**1,199**	**(6%)**

Regular life premiums showed a marked decline, mainly driven by the indemnification of unit-linked policies. In a shrinking Dutch market, the market share of new individual regular premiums increased to 19.3% compared to 18.2% in 2012, supported by term life insurances.

Reinsurance premiums paid were higher, due to the in 2013 expanded reinsurance contract to cover a larger portion of the portfolio.

Total investment income for own account showed a marked decrease due to lower direct investment income and lower realised gains on fixed-income securities, partly compensated by higher realised gains on equities and the conversion of separate account contracts to traditional contracts. The significant decline in direct investment income was driven by lower reinvestment yields and by lower dividend income.

Investment income for risk of policyholders was sharply lower, due mainly to the conversion of separated account contracts to traditional contracts and negative revaluation of fixed-income securities as a result of the increased interest rates. In 2012, there had been a decrease in interest rates, partly offset by higher dividend income.

6.4 Expenses

Table 6: Breakdown impairment charges SRLEV

Gross amounts In € millions	2013	2012	Change
Impairment charges on equities	7	24	(71%)
Impairment charges in fixed income securities	6	9	(33%)
Impairment charges of intangible assets	20	235	(91%)
Other impairment charges	18	18	0%
Total impairment charges	**51**	**286**	**(82%)**

Technical claims and benefits decreased due to lower technical claims and benefits for own account due to the decrease in premium income. Technical claims and benefits for account of policyholders were also lower, corresponding to the decline in investment income for risk of policyholders.

Acquisition costs for insurance operations decreased strongly mainly due to the absence of commission fees of new production and due to the switch in 2012 to non-commission fee-based arrangements for the sale and extension of pension contracts.

7 Developments brand REAAL

7.1 Strategy of REAAL

REAAL develops and distributes individual life insurance as well as bank savings products. REAAL achieves this with simple, clear and efficient services, putting the customer's interests first. REAAL's customer base comprises mainly retail customers, and also small and medium-sized enterprises.

The mission of REAAL is to help people make deliberate choices. Deliberate choices require insight. REAAL helps customers gain insight into their financial position, their needs, the risks relevant to them, the product options and the pros and cons of self-reliance and outsourcing to intermediaries.

REAAL applies two methods to help its customers make deliberate choices:

- reinforcing distribution via qualified intermediaries. REAAL wants to introduce a variety of service concepts that match the needs of customers and intermediaries and offer REAAL potential value. In that context, REAAL wants to reinforce the commercial strength of its intermediaries by means of client referral, online sales support and proactive portfolio management. REAAL also wants to help intermediaries broaden their advisory role with online tools, education and application of their own brands. REAAL aims for seamless collaboration with intermediaries based on knowledge sharing, joint claims control and co-creation. Customers should feel confident in choosing REAAL and their intermediary; and
- intensifying direct contact with customers and getting to know them better. This will enable REAAL to continue to improve its products, services and returns also in the long run.

In its current portfolio, REAAL aims to further increase efficiency benefits going forward based on harmonisation and standardisation.

7.2 Commercial developments and organisation

7.2.1 Preparing for the future

The separation of the Banking and Insurance activities of SNS REAAL puts organisational pressure on REAAL, particularly as from 2014. The Group incorporates relatively many staff functions. REAAL improved its services to customers, finalised the payments for compensation of overpaid unit-linked insurance costs and called over 28,000 customers to advise them to check their unit-linked insurance policies.

REAAL improved the organisation's efficiency, mainly by harmonising and standardising its systems and products.

7.2.2 New sales of term life insurance and bank savings products are stable

REAAL offers its customers a transparent and complete range of life insurance products. The risk insurance policies and bank savings products complement each other well. In term life insurance, REAAL maintains its position as market leader with a share of 25% at year-end 2013. There was growing competition from providers selling their products directly to the market. As a whole, the market remained stable. REAAL rewrote the product information for new and altered products in plain language and then tested its comprehensibility in a customer panel. The customer panel judged that 75% of the products had clearly comprehensible information.

REAAL's bank savings products are life annuity products to accumulate and return capital and to postpone returns on capital. The bank savings market grew again, but at a slower pace than in 2012. REAAL purchases its bank savings products from SNS Bank and reaches many new customers through its intermediaries. REAAL's total new sales remained flat. The ban on commissions and the separate consultancy fee spurred demand for term life insurance and bank savings products without advice.

7.2.3 REAAL urges customers to check their unit-linked insurance

REAAL completed the execution of the scheme for compensation of costs for customers who had purchased unit-linked insurance policies in the past. An initial amount was paid up on current insurance policies. In the period until the expiry date of the insurance, REAAL annually deposits a constant amount into the policy. For insurance policies already terminated, the cost compensation amount was paid as a lump sum. The compensation scheme applies to customers of REAAL, Zwitserleven and all their predecessors in title.

The capital accumulated on unit-linked insurance policies was adversely affected in recent years by low returns on investment. Returns in the past decade were much lower than in the preceding 30 years. As a result, customers are running the risk that their monthly premium investments are insufficient to reach their target capital. For that reason REAAL informed all customers with a unit-linked insurance policy twice by letter, advising them to perform a check via the website. This insurance check gives customers insight into their current policy, including wealth creation, and the options and alternatives. Customers may obtain free rebalancing advice on their insurance via their financial advisor.

After consultation with the Netherlands Authority for the Financial Markets (AFM), REAAL developed a method to approach vulnerable groups even more actively. Customers whose policies were most vulnerable to insufficient capital accumulation were contacted by REAAL by telephone. These included mostly customers who pay high premiums and whose policies are due to expire within 10 years. Before this campaign was completed, the AFM and DNB arrived at a new definition of most vulnerable policies: policies with a projected maturity value that is lower than the current value plus the sum of future deposits. This increased the size of the group designated for particularly active approach to 50,000. These customers were called by telephone wherever possible, followed by email confirmation if possible. Many customers appreciated REAAL’s phone calls. Customers who could not be contacted by telephone received a final letter with urgent advice from REAAL. By year-end 2013, approximately 60% of the group of 50,000 customers had been approached. All other customers with unit-linked insurance policies will be contacted in 2014. REAAL records the deliberate choices of customers as much as possible. There are also customers who consciously choose to continue their policy unchanged after having obtained rebalancing advice.

REAAL has a special website with clear information and information videos for customers with a unit-linked insurance policy. Some 10% of the customers contacted took action to check their product on the website. REAAL’s aim is for all customers to use this website to obtain information about their personal situation and possible alternatives. In REAAL's view, all customers should in fact assess their complex bank and insurance products every five years, or arrange for such, especially when large sums of money are involved or when a product serves an important financial goal, such as mortgage redemption or pension supplement. An early check may prevent major financial losses. REAAL considers it a prime responsibility to ensure – together with other insurers, industry associations and interest groups and the regulatory authority – that consumer access to maintenance advice is easily accessible. Raising awareness and restoring consumers’ trust in insurers and intermediaries are key in this respect.

7.2.4 Marketing campaign supports intermediaries

In the second half of the year, REAAL conducted a multimedia ‘Forgotten question’ campaign. Especially in a time that involves greater economic risks, customers must ensure they have the right term life insurance cover. They ask their advisor for advice on this topic. The campaign was a subtle reference to the FAQ lists of standard questions placed on websites where consumers can purchase products directly. They forgot to include the question of the customer, which is actually very important to him. Fortunately, he can now ask his financial advisor.

7.2.5 Providing customers with clear information

REAAL applies three key objectives in providing clear information to customers:

- clear products, structured according to a fixed and recognisable framework, that clarifies what a product does and does not do for the customer;
- clear product information based on SNS REAAL's style guide, aligning REAAL's style with the manner of communication by the other brands; and
- good accessibility of Customer Service via a central telephone number and answering as many questions of customers as possible in one call.

REAAL frequently measures these three aspects, which are partly based on assessments by customers and customer panels. Permanent information material, such as new brochures and quotation models, is only approved when at least 50% of customer panel assessments are positive about the extent to which customer interests are met.

7.2.6 Customer service and customer contact

7.2.6.1 *Aiming for long-term customer value*

REAAL aims to become the most customer-focused insurer in the Netherlands. REAAL Customer Service plays an important part in this respect. Customers increasingly find their way to REAAL Customer Service for their questions and needs. REAAL thus assumes part of the information and administrative tasks previously performed by intermediaries, allowing them to focus more on their advisory role. Customers find the direct contact with REAAL a positive experience, which greatly contributes to customer retention. Furthermore, via REAAL customer service, REAAL obtains much valuable information from customers to continually improve its services, products and processes. The point of departure for every change to the process chain is long-term customer value. How can we organise activities differently so as to provide quicker or better service to customers? REAAL expects its employees to identify with customers to such a degree that they themselves suggest possible improvements. These improvements are introduced if they have proven successful. In this way, every REAAL employee contributes to the ongoing improvement of customer focus and efficiency in all service processes.

Improvements may ensue from day-to-day practice but also in response to complaint analysis and customer satisfaction and customer experience surveys. For example, the information on mortgages displayed on the REAAL website has been improved. Customers can use the website to obtain answers to questions on the maintenance of their mortgage or how to make additional monthly repayments on their mortgage. Customers can now receive information about bank savings products via email based on a track-and-trace system. After any purchase or continuation, this informs customers exactly when a deposit takes effect and at what interest rate.

7.2.6.2 *Stricter requirements for the Customer-Focused Insurance Quality Label*

REAAL retained the Customer-Focused Insurance Quality Label, which serves as a guarantee of an insurer's consistent quality of services and customer focus. The Dutch Insurers Assessment Foundation, which issues this quality label, checks insurers by means on a random sampling and introduces stricter requirements every year. In 2013, the requirements for claims handling were tightened. REAAL improved the transparency of the claims handling process, including by publishing additional information on the website, making a brochure about the role of the loss adjuster and ensuring that customers always receive this brochure when the loss adjuster comes to visit. Moreover, REAAL reduced the processing time for rejections by means of standard letters for the most common situations. REAAL much more often chose to call customers instead of contacting them by letter or email, which many customers appreciated.

At the end of 2013, REAAL introduced a new email management system in order to gradually meet the more stringent requirements for accessibility and communication by email. REAAL states on its website the follow-up period for emails it receives and must meet a minimum of 90% of its commitments regarding these follow-up periods.

7.2.6.3 Improvement of complaint management

REAAL set up a complaints committee to further professionalise its complaint management. This committee aims to improve quality measurement in respect of complaint handling, communications regarding complaint handling, the monitoring and optimisation of the complaints processing time and the working method applied by employees when handling complaints.

In 2013, REAAL devoted more attention to customers' experiences with a subject, which also led to more phone calls and fewer written communication with customers. The definition of a complaint – and, consequently, the tackling of a problem – was fine-tuned to include every expression of dissatisfaction. REAAL keeps a permanent complaints top 5 to learn more from frequent complaints.

7.2.6.4 More complaints due to staff shortage, unit-linked insurance policies and improved registration

The number of complaints rose to 2,423 (+24%) at REAAL Life. Part of the increase in the higher number of complaints related to unit-linked insurance, both with regard to the essence of the compensation scheme and the products and with regard to the long processing time for product conversion.

7.2.6.5 Customer community launched

REAAL aims to strengthen the relationship with its customers and learn more about what drives them, which would contribute to restoring trust and to greater loyalty and brand preference. For that reason REAAL started a customer community pilot to engage in an online dialogue. In total 180 customers were registered during the pilot, 90 of whom posted at least one response, while nine posted more than five responses. Participants reacted quite positively to the pilot. A typical customer reply was: 'I, too, hope that my participation will contribute to a more honest insurer. This programme seems to me a very positive start, REAAL hereby indicates that it wants to take customer opinions seriously.' For this reason, REAAL decided to set up a permanent customer community, which was launched in late 2013. This involves a semi-open forum where all posts are visible to everyone, but which requires registration for customers who wish to post a response. On this forum, customers create their own topics, addressing questions to each other or REAAL. A REAAL webcare team is available to readily answer questions or encourage discussions. In addition, REAAL will launch WIKI REAAL in early 2014, aimed at clarifying difficult financial concepts together with customers, to enable an effective discussion of important topics with and among customers.

7.2.7 Engagement with intermediaries and other stakeholders

REAAL engages with intermediaries via the closed LinkedIn group Het Distributienetwerk van REAAL ('REAAL's Distribution Network'), which concludes 145 advisors. In 2013, the focus was on the unit-linked insurance portfolio and the 'recovery' advice. Through this group, REAAL intends to stimulate discussion with and between intermediaries, to help each other to improve their performance towards our customers. REAAL discussed the collaboration with intermediaries also in other ways: via group meetings, bilaterally and via Adfiz, OvFD and CFD, the professional associations for financial advisors.

Via REAAL College, REAAL offers regular courses under the Financial Supervision Act, courses in the context of continuing education and other intermediary training. Most training takes place at the head office in Utrecht, but additionally many in-company training seminars are given both at SNS REAAL and at the larger distribution partners. Although this involves professional training at commercial rates, these contacts help REAAL to better understand the culture and dilemmas of intermediaries.

Other major stakeholders that are among REAAL's ongoing contacts are the Dutch Association of Insurers and the AFM. With the AFM, REAAL discussed in detail the problems concerning unit-linked insurance policies.

7.2.8 Customer satisfaction

REAAL measures and monitors the NPS on an ongoing basis for the customer-related processes, which have most relevance and impact. The key scores were as follows:

- higher NPS for telephone contact with REAAL Customer Service, for claims handling and for opening a bank account;
- lower NPS for conclusion and payment of benefits under life products.

Important conclusions and improvements were the following;

- improved customer focus during telephone communications by deployment of more quality coaches at the Retail Acceptance and Claims Handling departments. By means of a new knowledge system, employees can maintain and expand their specialised knowledge better;
- a new system to offer distribution partners more insight into the status of claims settlement for customers.

Despite progress in a number of sub areas, REAAL cannot be satisfied with NPS developments in 2013. The main conclusions were: further improvement of service levels, more proactive and relevant contact with customers and further improvement of transparency in products and prices, and information in that regard. Each department has its own improvement plan, partly based on its NPS scores. In addition, REAAL realises that the entire insurance sector still faces a lack of trust due to the consequences of the financial crisis and the unit-linked insurance file. Together with all professional parties in our sector, REAAL will have to keep doing its utmost to improve service levels and regain that trust.

7.2.9 Safeguarding customer interests

REAAL applies performance indicators to test customer interests in product development and promotion, the selling and advisory process, customer service including after sales, and the corporate culture's customer focus. The AFM tests all products of insurers in active sales against the following criteria: cost-efficiency, usefulness, reliability and understandability. REAAL itself then checks again whether these products still meet the criteria at least once every three years. In addition, REAAL reassesses products when internal or external factors change, for example as a result of legislative amendments. This approval and reassessment process is applied to all products and all brands of REAAL NV.

7.2.9.1 Switching without advice

REAAL launched a pilot to help customers to continue or change a unit-linked insurance policy or single premium policy without intervention of an advisor. The customer can arrange to switch from a policy to a bank benefits account after maturity directly via REAAL for any amount below € 30,000. Customers must then take knowledge and experience test, sign a document for the provision of services and pay a € 150 service fee. This arrangement is only available to existing customers. Any switch to a different insurer after maturity of a policy must be arranged via an advisor, as REAAL can only properly judge the effects of its own products. The pilot will be continued and further expanded in 2014.

In many other cases, too, REAAL made the rules for product changes more flexible in response to many customer requests. REAAL reminds its customers of the added value of advice, but if customers insist they may change investment funds and terminate a term life insurance policy that is part of a unit-linked insurance policy before maturity without advice as well.

7.2.10 Responsible investment of premiums received

REAAL manages the insurance premiums that it receives from its customers in a responsible manner. This was again the outcome of a survey into responsible investment by insurers conducted by VBDO, the Association of Investors for Sustainable Development, at the end of 2013. Outperformed only by Zwitserleven, REAAL took second place among the 29 Dutch insurers that were assessed in the survey. The responsible management of the investments of REAAL and its customers is performed by SNS Asset Management.

The Fair Insurance Guide assesses the ten largest insurers in two different areas: the policy for unit-linked insurance and that for asset management on behalf of third parties. The Fair Insurance Guide only assesses the parent company of the relevant insurers.

7.2.11 Contributions to society

REAAL finances the digitisation project of the International Institute of Social History (IISH). IISH conducts research and collects data on the history of labour, workers and labour relations around the world. The IISH is in the process of digitising a number of important archives and collections of persons and organisations from the socialist, communist and anarchist movements in the 19th and early 20th centuries, such as Karl Marx and Friedrich Engels, Emma Goldman and Karl Kautsky. The digitised collections will be made available on the IISH website and other platforms, including the European digital library Europeana.

REAAL feels connected to the IISH mission. With the rise of industrialisation, we stood at the cradle of insurers such as De Centrale and Concordia, which were founded to support workers and provide them with a social safety net of good insurance. But also Hollandse Koopmansbank, 't Hooge Huys from the Province of Noord-Holland, Proteq and the Dutch business units of Swiss Life, AXA, DBV, Winterthur and Zurich Verzekeringen are among the predecessors in title of the current REAAL, Zwitserleven, Zelf and SNS Asset Management brands. Development and solidarity were major core values at our predecessors. These are values that we now, in a new day and age, wish to revive following a period of reflection on our role in society.

From July 2007 to July 2013, REAAL sponsored a chair at the Earth and Life Sciences faculty of the Free University for research into the risks and insurance of water management.

8 Developments brand Zwitserleven

8.1 Strategy of Zwitserleven

Pensions have become far too complicated. Complex pension products and communication result in people not adequately understanding their pension situations. They cannot make decisions or take action even though that may be necessary. Zwitserleven is not satisfied with that situation. After all, people entrust us with their money over a period of 40 years, so that they can enjoy the Zwitserleven Feeling afterwards. Indeed, the Zwitserleven Feeling starts now, since having your finances in order, gives peace of mind. To achieve this, we look further than pensions alone. We want to help people financially, now and in the future. This is Zwitserleven's mission. And we can achieve this with Simplicity for Later.

Simplicity for Later is the new strategy by which Zwitserleven responds to the changing market conditions. The market for pension insurers is changing rapidly. Continuing low interest rates, rising life expectancy, shrinking tax facilities and intense price competition are putting returns from guaranteed products under severe pressure. Employers are less and less prepared to pay the high premiums that are needed to make these guarantees possible. Responsibility for building up a decent pension is therefore shifting gradually from employers to employees. People will increasingly have to make their own pension arrangements and continue to work for a longer period of time before commencing their retirement. Zwitserleven wants to help them make the right choices.

The main features of Simplicity for Later are:

- the sale of simple and clear pension products based on a guaranteed contribution. Ultimately, these products will completely replace the traditional products with a guaranteed final sum;
- the sale of supplementary products with accrual protection for personal capital accumulation, partly based on products purchased from third parties;
- comprehensible and clear information and communication enabling customers to make well-informed choices for the build-up of their pension;
- excellent service;
- competitive pricing as a result of organisational cost-cutting measures and the offering of standardised products; and
- multiple distribution channels based on close cooperation with customer advisers and the development of direct sales and advice.

Zwitserleven applies four sustainability principles in meeting its responsibility for the future of individuals:

- My conscience: a financially sound and socially relevant company that takes account of people and the environment;
- You & I Together: listening and acting while considering others. Putting our customers, business partners and employees first;
- Clear & Good: very consciously looking for simplicity in products, services and communication, to put a smile on the other person's face; and
- Free & Secure: giving everyone a feeling of freedom and security, because you know you have arranged your financial affairs well, both now and in future.

The customers of Zwitserleven include director-shareholders (DGA's), SMEs, large corporations, their employees and other retail customers. Zwitserleven conducts an active dialogue with its stakeholders, including customers, advisers, supervisory authorities and the media, in order to be able to contribute even more to the ability of customers to manage their own financial affairs and to the sustainability impact of its activities. Zwitserleven invests its customers' pension contributions almost entirely in companies that meet our ESG (Environmental, Social and Governance) criteria. Zwitserleven is a signatory to the Principles of Sustainable Insurance (PSI) of the United Nations. The first report, which covers the period from July 2012 to the end of June 2013, is available on the Zwitserleven website.

8.2 Commercial developments and organisation

8.2.1 Focus on products with a guaranteed contribution

The pensions market was once again under substantial pressure in 2013. Important factors in this situation included the cost-cutting by businesses, the higher costs and selling prices for guarantee products, and a reduction in the tax allowance for pension products. The uncertainty surrounding SNS REAAL at the end of 2012 and in early 2013 made it difficult for Zwitserleven to attract new customers and to retain customers whose policies were maturing. The nationalisation provided our customers with more transparency, but SNS REAAL’s low credit rating and the proposed separation of the Group continued to damage confidence among large corporate clients regarding Zwitserleven’s continuity. Moreover, the solvency levels of all the insurers were pressured by increased liabilities, especially because of the continuing low interest rates and the decline in the ECB yield curve.

With its positioning and pricing, Zwitserleven focuses mainly on value, leading to caution with respect to guarantees and insurance of longevity risk. Total sales (including renewals) of regular premium and single premium policies declined by 10%. Zwitserleven’s market share in new regular premiums fell from 22.6% in 2012 to around 19.1% in 2013. Strong retention in the immediately payable pensions segment made an important contribution here. The Zwitserleven Exclusive Pension was once again the most popular product. With this product, the employee knows exactly how much is being invested on his behalf. The employee pays only the costs of management of the investment funds. After deduction of purchase costs and fund management costs, (0.5% on year basis with a maximum of 0.34% service fee) 100% of the net premium is invested. Administration costs and the premiums for life insurance and disability insurance are paid by the employer separately.

Guaranteed accrual accounted for approximately 50% of the total Zwitserleven portfolio at the end of 2013, compared to 55% in 2012.

8.2.2 Savings to supplement your pension

In July 2013, Zwitserleven introduced three savings products for retail customers that reflect the new direction of offering simple products for additional capital accumulation. The savings products can only be opened and managed online. They offer a competitive rate of interest that is higher than that offered by the three large Dutch banks. The website includes a calculator that enables customers to work out how much they need to pay in order to realise their savings target. The introduction was supported by a marketing campaign based on a survey of savings habits among Dutch people and the realisation of personal dreams. There was also a campaign to help the Nationaal Fonds Kinderhulp (NFK) to help fulfil children's dreams. For each deposit of at least € 2,500 or a lump sum payment of € 2,500, Zwitserleven donated € 5. Zwitserleven Savings is offered via ZwitserlevenBank, a trading name of SNS Bank.

8.2.3 Growth in direct sales and tied advice

In the area of direct sales and tied advice, Zwitserleven Pension Services focuses mainly on SME customers. This department was set up in 2012 to offer a solution for customers that were no longer able to find a suitable arrangement with a consultancy firm in connection with the stricter requirements of the AFM. The number of customers increased from 240 to over 450 in 2013. Zwitserleven Pension Services also introduced various new advisory services for director-shareholders and smaller SMEs in 2013. The fees for advisory services are transparent and appropriate for the target groups. With a cost-effective service and online management, Zwitserleven can offer smaller SMEs an attractive price.

The implementation of direct sales, with advice to SMEs, fits the multiple-distribution strategy of Zwitserleven. Pension consultancy firms are still the most important distribution channel. Zwitserleven has held detailed discussions with the pension consultancy firms in 2013 in order to make clear agreements regarding the approach to customers and the use of customer information. Procedures have been changed to avoid any appearance of conflicts of interest. For the same reason, functional segregation will be introduced into the IT systems in 2014.

Zwitserleven also frequently consulted with the pension consultancy firms regarding the introduction of the ban on commissions and new laws and regulations. The pension consultancy business is in flux, although the number of firms that left this business as a result of the stricter requirements in 2013 was limited. Meanwhile, 1,076 firms continue to operate, that meet the new pension insurance professional skills requirements. Zwitserleven does business with almost all these firms.

8.2.4 Better access to pension information

The Zwitserleven website is very important for increasing the ease of access to information on pensions. Animated film clips and tools were added in 2013, covering subjects like 'Will your pension hold its value?', 'The change in the state pension (AOW) age', 'Check your AOW age' and 'Calculate your potential pension'. Besides portals for employers, employees, director-shareholders and advisers, a portal for retail customers has been added in connection with the introduction of Zwitserleven Savings. On each portal, Zwitserleven provides e-magazines and other relevant pension information for the target group. The Zwitserleven website obtained the Free of Hurdles (Drempelvrij) quality label in 2013, showing that the elderly, people with sensory or mental handicaps and people with limited knowledge of Dutch can easily access the site.

8.2.4.1 Testing for the customer's interests

Zwitserleven developed a questionnaire for employers in 2013 that can be used to test whether an employer properly understands the features, risks and insurance cover of the product for which he has concluded a contract. Proper understanding of product features and conditions at the start of an agreement is important to avoid future misunderstandings. In some cases, the test leads to a dilemma for Zwitserleven.

Dilemma

When purchasing the product, the employer receives advice from an independent adviser who is also paid by the employer for this service. The response to several questionnaires showed that despite taking advice, the employer did not fully understand the product and/or had not purchased the right product. The dilemma for Zwitserleven was that it did not wish to bypass the adviser, since he had been engaged by the employer. For reasons of the customer's interests, however, Zwitserleven did contact the advisers and employers concerned because of the importance of establishing that customers do really understand the products and therefore know what they have bought.

Zwitserleven has a model for life-cycle investing (HorizonBeleggen) that is part of the defined contribution pensions. Based on age and years left until retirement, Zwitserleven invests the contributions received in a mix of shares, real estate and corporate and government bonds. The risk profile of this mix will automatically be reduced as the retirement date approaches. Zwitserleven regularly checks for the best possible balance to use the opportunities for return and to manage the investment risks. The life-cycle model was accordingly adjusted for both existing and new products in 2013.

Zwitserleven's pension products constantly evolve as a result of changes in laws and regulations and customer and employee requirements. Zwitserleven also checked all of its products for new sales in 2013 to measure whether the customer's interests were adequately prioritised according to the so-called CUSC criteria: cost efficiency, usefulness, security and comprehensibility. The comprehensibility of products and product information is tested by a customer panel. The customer's interests also involve the selling and advisory process, customer service including after-sales, and the customer orientation of the corporate culture. Zwitserleven uses performance indicators for these aspects as well.

8.2.5 Simplicity and customer value are the priorities of the new organisation

Zwitserleven is creating a new organisation that reflects the changing market conditions. The central priorities are to have simple and cost-effective products for new sales, some of which to be purchased from third parties, and far-reaching standardisation and automation in the administration and management of old products. Good service, support and communication continue to be essential elements in the new organisation to make the Zwitserleven Feeling accessible to all customers.

Important steps were already taken in 2013. Numerous legal and regulatory changes have put pressure on the organisation. However, processes have been more intelligently designed on the basis of lean projects without loss of quality and risk control.

The number of products for new sales with guarantees on the basis of average or final salary schemes decreased from seven to two. Zwitserleven no longer provides tailor-made solutions for customers. The thousands of separate schemes created in the past are too expensive. By understanding customer needs better and listing them differently, Zwitserleven wishes to create products that make tailor-made solutions redundant. A new system for the basic administration of defined contribution products was taken into operation in 2013. In many cases, scheme members can make changes themselves without the intervention of a Zwitserleven employee. Far-reaching automation leads to lower costs and makes better customer service possible, also as a result of the reduced chance of administrative errors. Furthermore, a large number of old products was converted in order to reduce the number of variants. Following completion of these changes are completed in the coming years, the number of systems used for old products will be reduced from seven to two.

8.2.6 Compensation for investment-linked pensions

In July 2013, Zwitserleven completed the implementation of the compensation scheme for investment-linked pensions, with calculations carried out for 372,000 policies. By the end of 2012, approximately half of all policyholders were informed if, and to what extent, they qualified for compensation. The other 50% were informed in the first six months of 2013. The policyholders received the amount credited to their policy not later than two months after receiving notification. All the policies checked, 73,700 qualified for compensation. A total of € 56 million was paid, with an average payment per policyholder of € 765.

In the second half of 2013, Zwitserleven completed a second round of compensation based on time-proportionate charging. In the past, some policies were sold on the basis of high costs in the initial years and much lower costs thereafter. Employees who had only worked at a company for a short time were thus charged for costs that covered practically the entire life of the policy. A later amendment to the Pensions Act put an end to this practice and gave rise to compensation for the years in question. Zwitserleven recalculated the charges for 53,000 policies on the basis of time-proportionate charging over the entire life of the policy. A total of € 7 million was paid out, with an average payment per policyholder of € 1,086.

8.2.7 Responsible investment

Zwitserleven invests its customers' premiums in a responsible way, taking account of the effects on people and the environment. We only invest in companies that observe international agreements. We do this by only investing in companies that pass a sustainability test. That involves evaluation whether the company in question observes agreements with respect to human rights, employment laws, corruption, the environment, arms, and customer and product integrity. Through our investment manager SNS Asset Management, we encourage companies to make decisions that take account of social issues, we engage in dialogue with companies and we exercise our voting rights at shareholder meetings. Zwitserleven reports to its customers with a report on the execution of its investment policy on quarterly basis. The reports contain summaries of voting behaviour and engagement with companies regarding the impact of their policies on human rights and the environment.

According to the annual review of the Dutch Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, or VBDO), Zwitserleven had the most responsible investment policy of all insurers in the Netherlands in 2013. This makes Zwitserleven the most sustainable insurer in the Netherlands according to the criteria of the VBDO survey. This survey considers the policy, implementation and transparency of the investments. Zwitserleven has held the Eurosif quality label for its transparent and socially responsible investment policy since 2011. The objective of this European organisation is to promote sustainable business conduct in the financial sector.

The Fair Insurance Guide (Eerlijke Verzekeringswijzer) assesses the ten largest insurers on the basis of two elements: the policies for investment-linked insurance and for asset management on behalf of third parties. The Fair Insurance Guide assesses only the parent company of the insurers concerned.

8.2.8 Serving customers better

Zwitserleven has improved its service and customer relationship system. Any employee can ask for a complete customer profile at any time, meaning that customers can be served more quickly and follow-up actions can be scheduled more easily. As a result of cost savings, it has not been possible to reduce the average customer waiting time. For important processes and contacts with employers at important times, such as the start of pension payment, the service levels remain up to standard.

Zwitserleven has reorganised its complaints management system, especially for complaints addressed to the management and those received via official institutions such as the Pensions Ombudsman and the Financial Services Ombudsman (Klachteninstituut Financiële Dienstverlening, or Kifid). The line managers have taken over the responsibility for dealing with these complaints from the Legal Affairs department. Zwitserleven can thus deal with customer complaints more quickly and answer them in everyday language. Contact is also made by telephone in case of complaints against management. These changes reduce the likelihood of escalation. Complaints analyses have been discussed on a quarterly basis at the management meetings since 2013. Prior to that, this was done twice a year. The closer involvement of the line managers means that complaints can be more effectively used for improvements to the organisation.

The number of registered complaints has risen from 1,495 in 2012 to 1,722 in 2013 (+15%). Over 65% of all complaints originated from employees of customers, with the remainder coming from advisers and employers. Most of the complaints from employees of customers were related to the surrender of small pensions (not possible on individual request at Zwitserleven), the processing time needed for the commutation of a small pension, failure to meet agreements or failure to deal with a request, and lack of clarity or mistakes in the Uniform Pension Overview, or UPO (Uniform Pensioen Overzicht).

Zwitserleven considers each complaint as an opportunity to learn and improve. Zwitserleven introduced various improvements in 2013 in response to an analysis of the complaints received, including:

- The creation of a UPO portal on the website. This enables customers to find all relevant details of their annual UPO easily, and data can be checked and improved more easily. Links are provided to instructive film clips.
- Better fulfilment of agreements. Overviews of outstanding agreements with customers are discussed daily and employees consult with each other regarding outstanding activities. This gives more assurance that customers will be contacted in a timely manner, in line with the agreements made.

8.2.9 Customer satisfaction

Several times a year, Zwitserleven measures the Net Promoter Score for the company as a whole and for its subfields. The NPS score from SME employers and large corporate employers was established as a combined measurement for the first time. Employers with many employees generally have more frequent direct contact with Zwitserleven, resulting in a better score. This group achieved a positive NPS of 18.2%.

8.2.10 Customer dialogue

Frequent contact with customers (employers and employees) on products and service, and related assessments, are essential for the further improvement of service quality. In addition to customer satisfaction surveys and complaints analyses, customer panels play an important role in this process. The results of these activities are used to further improve all of our existing products and communication to employees, and to create and test new products and services along with our customers. The use of everyday language in the product documentation is just one of the aspects that contribute to comprehensible products. Zwitserleven also studies how it can make its product design and general product communication more comprehensible. Input from the customer panels was also used in 2013 to put together educational film clips for the website. All employees of Zwitserleven can improve their understanding of the customer experience by watching the discussions with customers on video.

Via LinkedIn, Zwitserleven keeps employers up to date on pension developments and asks for their opinions through discussions and polls. Employers can also put questions to Zwitserleven online. There were approximately 1,000 followers at the end of 2013. Zwitserleven also has a community for employees of its customers on Facebook, with some 1,200 followers at the end of 2013.

Zwitserleven organised various events for customers in 2013:

- pension evening sessions for employees of customers approaching retirement, covering all aspects of the transition and the payment of pension benefits;
- Pension Podium, an event for customers and their employees at three locations across the country at which information and entertainment, such as a cabaret show on pensions, were combined;
- a number of on-site UPO days (as a paid service) to provide extensive information to employees on the Uniform Pension Overview and all relevant pension aspects; and
- a pensions seminar, at which Zwitserleven discussed current pension issues with pension fund managers, employers, employees and distribution partners. The theme in 2013 was ‘Pension to the museum’, with future philosopher Adjiedj Bakas sharing his vision of the pensions market in the future with visitors.

8.2.11 Employee dialogue

Zwitserleven developed a new strategy in 2013. Many changes were prepared and implemented, which led to a decline in the number of jobs. Particularly at such a time, an intensive dialogue with employees is essential to get them involved and to motivate them. Zwitserleven organised dialogue sessions, knowledge sessions, management visits and soapbox and other meetings on strategic subjects. There was ample opportunity to ask questions and initiate debate. Furthermore, members of the management regularly attended the normal work meetings and other departmental meetings to understand what issues live among their employees.

8.2.12 Dialogue with other stakeholders

Zwitserleven wants to encourage responsible behaviour in the area of pensions in a broad sense. In this context, Zwitserleven maintains various partnerships and dialogues with stakeholders in order to collectively create sustainable value and to enable people to manage their financial affairs. The future of our pensions system, including a wider range of choice for scheme members, and the restoration of consumer confidence are important themes for Zwitserleven.

In 2013, consultation with De Nederlandsche Bank and the Authority for the Financial Markets took place at management level three times. The discussions include financial information, market developments, strategic choices and projects, dilemmas, problems and specific themes. The topics discussed in 2013 included the Witteveenkader, which determines the annual amount of pension accrual that can be deducted from tax, the communication with respect to pensions, and the additional freedom of choice for the employees of our customers. Responsible business conduct is an agenda item on average twice a year. Zwitserleven also holds regular consultations with members of the Dutch House of Representatives, government officials and organisations such as the Consumers' Association. Furthermore, Zwitserleven takes part, on occasion, in discussions with regulators and the government through the committees of the Dutch Insurers' Association.

8.2.13 Awareness and education

Zwitserleven regularly seeks contact with the professional and public media in order to increase awareness of pensions in the Netherlands, especially amongst younger people, and thereby to emphasise the importance of personal responsibility and the options available to scheme members. Zwitserleven also supports various educational institutions and projects by means of internships, thesis subjects, guest lectures, assistance in structuring of the curriculum and grants. The activities in 2013 included:

- development of a pension education class in secondary vocational education students, in cooperation with pension administrator PGGM and the foundation Weet Wat Je Besteedt (Stay on top of your spending). Some thirty lessons were given by management members and other employees. Zwitserleven strives to achieve a situation in which - within five years from now – pensions are a standard part of the curriculum for young people. In 2013 Zwitserleven also gave € 11,000 in financial assistance to Weet Wat je Besteedt;
- together with Stichting Qloud Connect, a platform for students with quantitative interest, companies and institutions, Zwitserleven organises projects focusing on the future of pensions. In 2013 Zwitserleven participated in a brainstorm session at which students considered the question of what pensions would look like in 2020. This led to surprising concepts for new products and methods of distribution;
- Zwitserleven organises guest lectures each year for the business mathematics faculties at the Universities of Applied Sciences in Amsterdam and The Hague. Students are asked to design a pension planner that consumers can use to understand their pension. Zwitserleven offers internships and possibilities for graduation; and
- Zwitserleven sponsors the Accenture professional award for the most sustainable innovation, in part to get ideas itself regarding sustainability.

8.2.14 Contributions to society

Zwitserleven wishes to contribute to social objectives with the assistance of its partners, especially regarding the ability of individuals to manage their own financial affairs. The spearhead project is Micropensioen, whereby Zwitserleven and PGGM, at the initiative of Enviu, attempting to establish a pensions company in Ghana. This is a collaboration with local business people, including micro-finance banks and insurers. Zwitserleven contributed € 60,000 to this initiative in 2013.

Zwitserleven supported the three-day Pension Event (Pensioen3daagse) with pension consultations and a cabaret on pensions. Pensioen3daagse is an initiative of the Wise in Money Matters platform (Wijzer in geldzaken) and other participants from the financial sector, the government, information and consumer organisations and the academic community, with the objective of enabling consumers to manage their financial affairs. Zwitserleven contributed € 83,500 and 1,120 hours to this initiative in 2013. Zwitserleven made one FTE available to the Red Cross for six months for the development of the Red Cross EHBO Card. In the immediate neighbourhood of its offices, Zwitserleven was involved in the Amstelveen Summer Academy. In cooperation with the Municipality of Amstelveen and other companies, Zwitserleven contributed to an educational programme for young people between 12 and 18 years during the summer period.

9 Risk and capital management

As a result of the nationalisation, the Ministry of Finance - in close collaboration with SNS REAAL - has submitted the restructuring plan for SNS REAAL to the European Commission (EC). The EC approved this plan on 19 December 2013. In 2014, Banking and Insurance activities will be split and the Insurance activities will be prepared for divestment.

To prepare for the separation of an independent bank and insurance company, the process plan had already been written and a project organisation had been set up in 2013. The senior management of the Group, bank and insurer were involved in the formulation of this process plan. The plan broadly addresses the (operational) risks involved in separating the company.

Notwithstanding the considerable increase in workload, SRLEV's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Solvency II), an increased number of inquiries from regulators and regulatory requirements, necessary investments in the data warehouse infrastructure and organisational changes within SRLEV, placed pressure on the available qualitative attention for the internal control framework, specifically with respect to the linkage between internal control at group and business units level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team of the insurer will give further substance to an integrated control framework.

Following the separation into a bank and insurer, the financial risks of the separate entities will not be materially different from the current situation. In accordance with the request by the Minister of Finance during the nationalisation, work began in 2013 to reduce the financial interdependency of the bank and insurer. This will continue in 2014.

9.1 Risk management

9.1.1 Developments in risk management for SRLEV

9.1.1.1 Risk criteria

In 2013, as preparation for the new standards known as Solvency 1.5 (such as the Theoretical Solvency Criterion) and Solvency II, internal management reports have already been extended by the risk criteria based on these standards in anticipation of this new legislation. The risk management of SRLEV NV is guided by the Solvency I framework, but the impact of these new risk criteria is (also) taken into account at the same time.

9.1.1.2 Earnings models

SRLEV's earnings models were subject to further analysis in 2013. The contraction in the life insurance market continued as a consequence of the changes to the tax regulations and in customer behaviour. The risk management departments of the insurer were heavily involved in the analyses of these earnings models. Group Risk Management also took part in these discussions on the basis of its second-line role and in continuous dialogue with the Business Units and the Board of Directors. An important conclusion is that the Dutch insurance market is expected to undergo consolidation of which SRLEV will be involved. This is also set out in the restructuring plan approved by the European Commission.

9.1.1.3 Solvency

The solvency of SRLEV came under further pressure during 2013. In July 2013, France was downgraded by Fitch, as a result of which it is no longer included in the ECB AAA Curve used to value the insurance liabilities. This led to a downward shift in the ECB AAA yield curve and, accordingly, a fall in solvency. Solvency was also adversely affected by the update of parameters (including the impact of the additional structural allocation of Group expenses), methodologies and models. These negative factors were partly compensated for by the development of the interest rate and credit spreads. SRLEV has focused closely on the development of solvency and has put mitigating measures in place to maintain the solvency level. For more details refer to section 9.3 Capitalisation.

9.1.1.4 Balance sheet management

Solvency pressure leads to a dilemma in the balance sheet management. SRLEV seeks to manage the balance sheet on economic grounds, but the current low capitalisation level results in regulatory solvency being the leading metric when managing the balance sheet. In particular, using the Ultimate Forward Rate and the surrender floor value under Solvency I make both the value and the sensitivity of the insurance liabilities different from what would be the case under economic principles. Due to the pressure on the regulatory solvency, SRLEV could not place as much emphasis on economic value as desired.

9.1.1.5 Risk management organisation

Further improvements were made to the risk management organisation in 2013. Roles and responsibilities were more clearly defined and separated where necessary. SRLEV is thus broadening the way it implements the 'three lines of defence'.

9.1.1.6 Unit-linked policies SRLEV

Since 2008 there has been widespread public attention for the costs and risks related to unit-linked insurance policies and the question whether insurance companies adequately informed their (prospective) customers in that regard. In response to this, SRLEV (and other insurers) have concluded a compensation scheme with consumer organisations. Based on this scheme, the costs that have been – and will be – withheld until the maturity date will be redeposited into the insurance policy, in so far as these costs are higher than the maximum percentage specified in the compensation scheme. The compensation scheme has been implemented.

The costs of the compensation scheme and flanking policy are substantial and are recognised in the financial statements. Current and possible future subsequent legal proceedings could have a substantial financial and reputational impact. However, it is not possible at this time to make reliable estimates of the number of expected proceedings, possible future precedents and the financial impact of current and possible future proceedings. SRLEV, therefore, did not record a provision.

9.2 Future developments in financial risks

- The earnings model of the Life insurance operations is facing downward pressure owing to contracting and more competitive markets, the transition to other (less profitable) products, exemption from taxes and more rational customer behaviour.
- Market risk, the commutation risk for life and the longevity risk are manifesting themselves in movements in interest and share prices, unforeseen changes in commutation expectations and unforeseen falls in mortality risks, amongst other things. The scope of these risks - in addition to that of other (less tangible) risks - affects the level of capital required under the Theoretical Solvency Criterion (TSC) that came into effect on 1 January 2014 and will also be playing a major role under the Solvency II regime, with effect from (as is currently expected) 2016.
- Social unrest concerning public discontent with investment-based insurance contracts is hindering the transition throughout the entire insurance sector.
- Changing legislation and regulations (Solvency II, TSC, etc.) and evolving insight as to how to interpret them (e.g. tax changes, changes to the Ultimate Forward Rate) could lead to unforeseen changes to the financial position.

For more information see Chapter 18 Financial risk management.

9.3 Capitalisation

Regulatory solvency of SRLEV NV amounted to 187% compared to 211% at the end of 2012. Solvency was negatively impacted by the downgrade of France in July 2013 by Fitch, after which French government bonds were excluded from the ECB AAA curve used to calculate regulatory solvency. The subsequent downward shift of the ECB AAA curve had a negative impact on solvency of 31 percentage points. Furthermore, parameter changes, which mainly consisted of adjustments of cost parameters (including the impact of the additional structural cost allocation from the holding company), adjustments of the valuation of mortgages and the use of more prudent mortality tables, an increase in the number of homogeneous portfolios and adjustments in the risk margin used in the solvency calculation had a combined negative impact of 24 percentage points. The negative factors were largely compensated by the development of interest rates, credit spreads and underlying net profit had a positive impact.

The Solvency I ratio after (market)stress is calculated monthly by using shocks on interest rates, credit, equities and real estate. At year-end 2013, the solvency after stress is 129%. Because of the fact that at REAAL NV, the solvency after stress is 114% and also below the internal threshold of 125% at year-end the Executive Board of SNS REAAL decided to analyse the capital position at REAAL NV and insurance subsidiaries under various scenarios and define possible management actions to strengthen and protect it. In this context, a base case projection of the solvency ratio under different capital regimes , amongst other Solvency I and Solvency II, was carried out. Subsequently, the impact on the base case of four stress scenarios was calculated. These scenarios are more severe than the regular monthly market stress calculations. They are severe stress scenarios on underwriting risks (including increased commutation and longevity), market risks and operational risks (profitability). As part of the analysis the recovery capacity in the coming three years has also been examined.

The conclusion is that in severe stress scenarios analysed, the Solvency I ratio at SRLEV NV level remains above 100% for the test period of three years. Solvency II requirements and the interpretation thereof are still in development. The pressure on the capital position under this regime is most evident in the most severe stress scenarios tested. However, based on current insights, the Solvency II ratio shows sufficient recovery under these scenarios.

9.4 Non-financial risks

9.4.1 Management of non-financial risks

The social discussion on the financial sector continued unabated in 2013. For SRLEV, this was particularly so in view of the nationalisation. There remained as much political and social focus as ever on investment-related insurance products in relation to vulnerable target groups. Ethical behaviour and integrity in business operations remain vital to restore confidence in the financial services sector. SRLEV puts customer's interests first in its mission, core values and strategy. The foundation for integrity and control in business operations is and remains in compliance with legislation, regulations and internal rules and the maintenance and promotion of integrity in business culture. SRLEV has a code of conduct and a set of measures to guarantee integrity in the conduct of its business. Signs of breaches of integrity are always investigated.

9.4.2 Development in the management of non-financial risks

In 2013, the management of non-financial risks continued to develop in the following areas:

- 2013 once again saw the implementation of another Group-wide integrity survey. This was performed as part of the annual financial audit to assess the quality of the soft controls. This also covered the impact of the nationalisation of SNS REAAL on how integrity is experienced among its employees. The survey showed that the climate of integrity and compliance at SNS REAAL had continued to improve throughout the Group as compared to the previous survey in 2011;
- a start was made with rolling out a Group-wide risk appetite dashboard for non-financial risks within all of the

Group's business units;

- several awareness campaigns were pursued in 2013, including a workshop on ethical and controlled business conduct, a 'train the trainer' module and an e-learning course on the code of conduct 'Common Sense, Clear Conscience';
- the policy on ethical and controlled business conduct has been further evaluated in an annual process set up for that purpose. Additionally, new policy was formulated in the area of execution-only service and FATCA;
- SNS REAAL's executive management and the Supervisory Board signed the moral ethics statement in 2013, declaring they would perform their responsibilities with integrity and due professional care and that they would diligently balance the interests between all stakeholders, putting the customer's interests first;
- the measures in the context of the restructuring gave rise to additional stress on the organisation; and
- the vision on operational risk management was evaluated and recalibrated. This will be followed up in 2014 and thereafter.

For more information, see Chapter 20 Non-financial risk management in the financial statements.

9.5 New regulations and their implementation

9.5.1 Solvency II

The date on which the new Solvency II regulations will be applicable for the European insurance sector has been postponed. Solvency II was originally enter into force on 1 January 2014, but this has been postponed until 1 January 2016. In the meantime, there will be more risk-based supervision in the form of implementing the EIOPA Preparatory Guidelines and the new Theoretical Solvency Criterion (TSC) prescribed by DNB in 2014. A detailed version of the Level-2 regulations will also be published in 2014, in the form of a Delegated Act of the European Commission. In view of the anticipated effective date, agreement must however be reached on the definitive texts in a European context within the next two years.

Various regulatory bodies feel that the aforementioned postponement of Solvency II as a whole is too long. Both DNB and EIOPA will therefore be introducing elements of Solvency II sooner, thus broadening the current solvency regime. In 2014, DNB introduces an Own Risk Assessment, in which the insurer has to meet a minimum solvency requirement following a stress test. In addition, DNB has also prescribed the Theoretical Solvency Criterion, consisting of a combination of Solvency II and Solvency I elements. EIOPA made elements of Solvency II compulsory with effect from 1 January 2014 and 1 January 2015 under the heading of 'Preparatory Guidelines'. Moreover, various governance requirements will also enter into force in 2014.

Solvency II will greatly increase the reporting obligations. SRLEV NV's preparations are therefore currently focusing mainly on putting a structural reporting chain in place. In 2015, SRLEV will be drawing up the first Solvency II reports on the financial year 2014.

9.5.2 Developments in the risk management organisation

On 19 December 2013, the European Commission approved the separation of SNS REAAL's banking and insurance activities. The Property Finance activities were separated on 31 December 2013.

In the near future the bank and the insurer will continue as separate companies. The current function of the Group (SNS REAAL) will be limited to a financial holding, which will eventually cease to exist when the Insurance activities are sold and the bank is privatised. As a result of this, the Group's role in forming policy and the parameters for risk control will be reduced with effect from 2014. The emphasis will be placed on continuing to improve the quality and efficiency of the risk management organisation at the insurer individually but with no less focus on customer interests and corporate responsibility.

In 2013, we continued to work on improving the risk management organisation. Changes being made in 2013 will be permanently applied and, where necessary, further defined at the bank and insurer in the years to come. The main developments in 2013 were as follows:

- the risk appetite was elaborated and formalised in a risk dashboard in which the extent to which set limits are enforced can be precisely monitored. The Risk Appetite Statement, including the dashboard, was translated into individual dashboards for the bank and insurer respectively;
- the composition and procedures of the risk committees were adapted where necessary in order to achieve balanced representation of both the business and the risk management. The quorum has also been adapted to this;
- setting up the risk management in keeping with the 'three lines of defence' model was further defined internally (See also section 17.2 Risk Management Organisation);
- model risk management was further professionalised and incorporated in the policy and the normal risk management organisation.

The separation into a separate bank and insurer means that the separation of tasks and responsibilities between Group Risk Management and Business Unit Risk Management introduced in 2012 and 2013 need to be reviewed in 2014. This applies also to the functional lines for the risk function of Group Risk Management and the structure and composition of the risk committees. Furthermore, the existing Risk Management Policies will be adapted to the new situation.

For more information, see Chapter 17 Risk management and organisation.

10 Funding and credit ratings

10.1 Public funding strategy

Our public funding strategy is aimed at funding the activities of SRLEV at competitive levels, i.e. at minimal cost while limiting risks. This strategy is based on two pillars. The first pillar comprises measures to ensure sufficient and prompt liquidity. In this manner we can avoid the risk that, at a late stage, we will need to obtain money at unfavourable conditions. The second pillar is the diversification in terms of funding instruments, types of investors and geographic areas.

10.2 Funding transactions in 2013

SRLEV NV did not carry out funding transactions in 2013.

10.3 Credit ratings

In 2013, the credit ratings of many European financial institutions continued to be under pressure.

On 4 February 2013, in response to the nationalisation on 1 February 2013, Moody's placed all ratings on a 'review for downgrade'. On 5 February 2013, also in response to the nationalisation, S&P raised the CreditWatch for the Insurance activities from 'developing' to 'positive'.

On 29 March 2013, S&P lowered the SACP (stand-alone credit profile) and thus the credit rating of the Insurance activities from A to BBB (CreditWatch positive) and decided to disconnect the ratings of SNS Bank and the Insurance activities. On 7 May 2013, the rating of SRLEV was raised again from BBB to A- with a 'negative outlook'.

On 5 August 2013, Fitch lowered the rating of SRLEV from A- to BBB+ (stable outlook).

On 12 September 2013, Moody's reconfirmed the credit ratings of the Insurance activities and replaced the 'Review for further downgrade' with a 'stable outlook'.

Table 4: Credit ratings 31 december 2013

	S&P	Moody's	Fitch
Long-term			
SRLEV	A- (negative)	Baa2 (stable)	BBB+ (stable)

11 Our people

SRLEV is a genuine ‘people company’. It is only thanks to our employees’ commitment that we can build long-term relationships with our customers, as they establish and maintain customer contact. We encourage our employees to continue developing and learning new skills. We want to offer them a good work-life balance and responsible remuneration. We feel job satisfaction is important. In 2013, despite sometimes challenging circumstances at the time of the nationalisation, the measured average employee satisfaction remained relatively high with an average score of 7.5, with an improvement on important indicators. We are pleased and proud about this.

11.1 Impact and consequences nationalisation for employees

For our employees, the period prior to the nationalisation of SNS REAAL was hectic and full of uncertainty. The high level of media coverage and the subsequent nationalisation left no employee unaffected. Nonetheless, in the period of the nationalisation, our employees managed to keep their focus on our customers. To enable our customer service centre and webcare team to answer all our customers’ queries, many colleagues helped out and opening hours were extended.

After the nationalisation, SNS REAAL started preparations for the organisation restructuring, in line with the plan that was submitted to the European Commission, approval for which was obtained in December. The separation of the Banking and Insurance activities implies that activities and positions are transferred from the Group to SNS Bank NV and REAAL NV.

At top-level management, ‘quartermasters’ are planning and coordinating the further privatisation of the banking and insurance activities. In January 2014, the requests for recommendation submitted to the Central Works Council (CWC), with an elaboration on the proposed structure of the new staff departments of the bank and insurer. The requests for recommendation were drawn up in close collaboration with the Group staff departments and SRLEV and in coordination with the works councils.

11.2 Putting the customer’s interests first

Our guiding principle in further improving our services is ‘putting the interests of our customers first’. Business Units use performance indicators to accurately manage and monitor this principle across all of their services, including product development and promotion, the sales and advisory process, customer service and follow-up care and a customer-oriented culture. In doing so, the attitude of our employees is, of course, paramount. To promote the desired attitude, our Human Resources (HR) department supports managers and employees with various resources and activities. In 2013, putting the client’s interests first was more effectively incorporated in job descriptions, job advertisements, recruitment communications and employees’ annual PCB. Every year, each employee has at least one result-oriented performance agreement about how the employee’s performance serves the interests of the customer.

REAAL held staff meetings. In special ‘Management-in-Dialogue’ sessions, employees of many departments discussed REAAL’s ambitions with each other and REAAL’s management.

11.3 Integrity: compliance with internal and external rules and regulations

Integrity is vital for a financial services provider. In our company, we therefore have a wide range of procedures to ensure all things are done fairly and correctly. A lot of attention is devoted to conduct and business values as well. Despite these efforts, incidents may occur in which procedures and rules and regulations do not work properly or are not fully complied with. In that case, we take adequate action.

In the autumn of 2013, KPMG conducted (as part of the financial audit) a company-wide investigation into our integrity. Compared to previous measurements there is an overall improvement.
In recent years, SLREV has increasingly paid more attention to integrity in training programmes and procedures. Partly in response to an earlier study by KPMG, SRLEV improved the incident reporting policy and made incident reporting via the

intranet much easier. In addition, employees can report suspected violations of rules, such as fraud, inappropriate conduct and conflicts of interest anonymously if desired. Our Code of Conduct, called ‘Common sense, clear conscience’, gives employees tools to take responsibility ensuring a responsible organisation. The Common sense, clear conscience e-learning programme is both about the code of conduct and the responsible organisation, professional conduct, putting customer interests first and the reporting, discussing and preventing of incidents.

Moreover, news items on the intranet, presentations and workshops, based on interaction and self-analysis, contribute to employees’ integrity awareness. In the Responsible Organisation Team Workshop, employees assessed how responsible their department is on the basis of questions and statements for discussion. Does our department devote enough effort to putting the interests of our customers first? Do we comply with all the rules and regulations? Do we call one another to account regarding undesirable conduct? Each department could thus identify their own means of improvement.

Executive Board members, Supervisory Board members and part of the top-level management signed the moral-ethical statement, which is mandatory as of 1 January 2013. The principles included in this moral-ethical statement fit seamlessly into the mission and core value of SRLEV and putting the interests of the customer first. Making this statement has symbolic value, but also contributes to the awareness of our conduct in relation to our customers and can thus inspire us to further improve our services and restore confidence in the financial sector.

11.4 Personal leadership

It is our staff who put our mission, Simplicity in finance, into practice, inspired by our core value CARE! We therefore consider it important that our staff are professional, committed and motivated. We expect personal leadership from them in their own work. By this we mean that they are driven by self-motivation to provide customers with the best possible service and to contribute to SRLEV’s overall result. Each employee is responsible for his own professionalism. This demands a modern leadership style from managers. They are to empower employees to make use of their full potential through support, feedback and discussion.

More freedom means more responsibility and more accountability with regard to personal commitment and performance. Which goals have been achieved and which have not? What went well and what can be improved? With dialogues like these, we create a culture of continuous improvement in our organisation. Over the past three years, REAAL and Zwitserleven have gained positive experience with personal leadership in lean projects that aim to achieve sustainable customer value and at making the organisation more efficient.

Personal leadership is one of the core competencies every manager must possess. We also assess managers on how customer-oriented and results-driven they are and how their team development is progressing. As of 2014, these competencies are included in the annual Performance and Competency Evaluation (PCB). Every manager in our company, from department head to CEO has to include at least one of these competencies in his objectives and work on the development of these competencies. Each manager must score at least a 'good' for all four competencies. Managers can conduct a 360 degree feedback to examine how they perform on these competencies. In addition to this, other self-reflection tests are available. In 2013, SRLEV started masterclasses with Management as subject area. These masterclasses are given by its own (senior) managers.

11.5 Attractive and responsible employer

SRLEV's goal is to be an attractive and responsible employer, with competitive conditions of employment, sustainable employability programmes, training and personal development opportunities, diversity and a good work-life balance. With regard to the latter, the New Way of Working (HNW) is an important instrument. HNW encourages personal leadership; we entrust employees with the responsibility of organising their own work. Employees have a clear focus on results, carry out part of their work at home and use modern media to communicate with their colleagues. Investment costs, mainly for office refurbishment and technical equipment, will be recouped by more economical and effective operations. We save considerably on office space costs and the impact on the environment is reduced.

Knowledge sharing and collaboration are becoming more and more important as developments are taking place in increasingly rapid succession. To promote efficient and effective internal communication, we added social media functions to our intranet. This allows employees to respond to news items and post updates themselves.

11.5.1 Employee satisfaction remains high

In 2013, 82% of our employees participated in SNS REAAL's group wide annual employee survey. While employee satisfaction fell slightly due to the uncertain situation in 2012, it rose again from a score of 7.3 to 7.5 in 2013. There is still a need for clarity about the future, but confidence increased as a result of the nationalisation and the new course. Many employees are very pleased with the benefits of HNW, such as flexibility, working from home and finding a better work-life balance. Areas of attention in this field are the social cohesion and availability of workplaces and meeting rooms on the busiest days of the week. Employees are more positive about the development opportunities than last year. Growth opportunities remain another area for attention, as does inter-departmental collaboration. In some departments, employees experience (too) much pressure at work.

11.5.2 Safe working environment

SRLEV wants to offer its employees a safe working environment, distinguished by mutual respect. We will not tolerate any inappropriate conduct such as sexual harassment, bullying, discrimination, aggression and violence, neither psychological nor physical. Anyone who faces such inappropriate behaviour can have access to confidential counselling through the health and safety advisory service, or report any such incidents to the Incident Contact Centre. One formal complaint of inappropriate behaviour was submitted to the Confidentiality Committee in 2013. Company counsellors of our occupational health and safety service give advice on work-related or private problems that affect work. They are also trusted employee representatives for SRLEV.

11.5.3 Diversity and inclusivity

Our logo, the kaleidoscope, exudes it: we want to be a colourful organisation, a reflection of society. We strive for quality and want to accommodate the talents of both men and women with different personalities, styles, ages, cultural backgrounds. In 2013, we introduced diversity guidelines for recruitment, hiring, appointments and talent development programmes to promote diversity in a more systematic way. Moreover, diversity monitoring gives us insight in details such as the representation of men and women and their ages per department and team.

11.5.4 CARE!

CARE! is the core value of SRLEV. Through CARE! SRLEV calls on its employees to consciously create a bond with our customers, each other, our result and society. CARE! for society, for example, is emphasised by means of educational initiatives carried out by the brands themselves. In 2013, some SRLEV employees delivered guest lectures at schools to give children more insight into money matters and teach them to manage money wisely. Apart from this, the CARE! Fund encourages employees to dedicate themselves to a good cause by providing financial support. There is a site on REAAL's intranet that matches supply and demand for volunteer work. SNS REAAL's Mutual Help Fund is an example of how we apply the values of CARE! for each other. This fund supports SRLEV employees who run into financial troubles due to unexpected high costs through no fault of their own.

11.6 From work to work

There were many projects to promote working in a more customer-oriented and efficient way throughout the organisation. There were some restructures too. HR offers workshops and guidelines to support managers and employees in coping with restructures.

SNS REAAL, the holding company of SRLEV, has a new Social Plan for the period from 1 January 2013 to 1 August 2014. The Social Plan is based on agreements with the trade unions. Employees who lose their job due to a restructure will be assisted in their search for a new job inside or outside the organisation for a period of nine months. For those who do not succeed in finding a job within SNS REAAL, there is a financial severance scheme.

11.7 Sustainable employability

Sustainable employability requires vitality and health, training and development and career planning of employees. It also requires vision and planning on the part of managers. Every year, with the help of an integrated staff planning tool, managers map the potential gap between their department's current resources and future needs. This allows them to attune their quantitative and qualitative staffing to future needs in good time, for example by planning training programmes.

11.7.1 Vitality and health

Once every three years, employees are offered a health check free of charge. This check clearly explains what an employee can do to stay healthy and to prevent health problems. The updated 'Health Plaza' on the intranet gives tips on the relationship between work and health, as well as information on becoming and staying healthy for employees who are (partially) unfit for work. On top of this, SRLEV offers training programmes to cope with work pressure more effectively, for both individual employees and departments.

11.7.2 Training and development

SRLEV has a wide range of education, training courses and workshops, including specially developed in-company training programmes. Moreover, we frequently invest in development programmes at team and Group level. Development is not optional, but essential in order to respond to changes in an organisation. As of 1 January 2013, the Financial Supervision Act (Wft) has tightened requirements for customer facing employees. The new competence requirements will apply as of 1 July 2014 for new advisors and as of 1 July 2015 for advisors with 'old' Wft certificates. Employees who do not yet meet these competence requirements, are given the opportunity to take courses and resit exams.

11.7.3 Career support

In late June, LoopbaanPlaza opened its doors in Utrecht. LoopBaanPlaza is SRLEV's internal mobility centre for anyone who seeks continuous professional development. During the opening event, presentations and workshops were held on development and career support. There was also an information market with booths crewed by the Business Units of SNS REAAL and training institutes where employees could 'speed date' with recruiters and have interviews with career counsellors. Enthusiasm for the workshops was so great that they were offered again in autumn and are included in the regular training schedule. At Zwitserleven for example, over three hundred employees attended a workshop or conducted an interview with a recruiter or career coach. And over a hundred people attended the event at REAAL.

The LoopBaanPlaza regularly offers walk-in consultation services. This is an accessible way for employees to obtain information about their career, (personal) development and training programmes. They can also get job application tips and career advice from an advisor or coach. There had been a strong demand from employees for internal career counsellors who know the organisation well. LoopBaanPlaza now meets this demand.

SNS REAAL conducted an awareness campaign called 'What is your course? Choose your direction!' to encourage employees to think about their employability, to get in the driver's seat and determine their own course. Employees regularly receive tips, for example, on how to deal with organisational changes on the intranet, in the staff magazine and during career events, workshops and training programmes. The new training programme ‘Choose your direction’ helps employees manage their employability, competence development and career.

The annual Performance and Competency Evaluation (PCB) acts as the compass for employability. This allows both employee and manager to jointly reflect on the employee’s current performance, employability and career opportunities in the future. As we attach great importance to continuous employee development, we will agree one one-year development objective with every employee from 2014. An employability checklist and scan help employees to get better insight into their employability and how to work on this. We also offer a personal development plan or career guidance.

11.8 Attracting and developing talent

In order to give talented candidates the opportunity to get to know us and interest them in joining SRLEV, we are active on campuses. We co-operate with colleges, universities and student associations in content-related areas.
SNS REAAL’s IT & Change department, for example, is Partner in Education of the Fontys Hogescholen and is thus closely involved in the development of sound IT education and the development of students. A number of our IT employees give guest lectures and workshops, advice on drawing up or updating learning courses, act as external experts in examinations and offer students the opportunity to carry out research in the organisation, as well as internships and graduation projects. We regularly organise lunch sessions in which our traineeships are the central topic. In an informal setting, talented candidates get acquainted with the organisation, our colleagues and career opportunities.

Twice a year, SNS REAAL organises an introduction day for trainees, to get acquainted with the organisation and each other. To mark the end of traineeships we organise a special day for trainees to thank them for their commitment, to learn from their experiences and to give them something to take away for their working life. SRLEV finds it important to invest in the training and development of young talent. Traineeships play an important role in this.

In late 2013, three new management trainees and three financial trainees started their traineeships. Moreover, a new group of employees started the Talent Development Programme. Each year a group of selected promising managers of SNS REAAL participate in the Management Development Programme (MD programme). An important part of this programme is the Interventures, adventurous learning projects in which participants work in groups both during and outside of the programme. The assignment theme is always innovative and in the interest of SRLEV. In 2013, SRLEV started the Specialists Development Programme especially for experienced specialists who advise senior management. Recognition of the role of specialists and enhancing their advisory powers are the key objectives.

11.8.1 Future-proof conditions of employment

SRLEV aims to provide future-proof and sustainable conditions of employment, allowing us to be an appealing and distinctive employer. The first steps to achieving this goal were taken in the collective labour agreement concluded at the end of 2012. SRLEV staff did not receive a collective wage increase and the personal assessment bonus was adjusted.

In connection with the nationalisation, the Management Board of SRLEV considered a further reduction of the variable remuneration to be inevitable. For 2013, therefore, there was no variable remuneration (bonus) for the Management Board and senior management of REAAL and Zwitserleven, who, under normal circumstances, would be entitled to such remuneration. The Management Board and senior management were not entitled to variable remuneration in 2012 either. Refer to the remuneration report in Chapter 16 Report of the Supervisory Board for more information on the remuneration of the Executive Board and senior management.

At year-end 2013, SNS REAAL (the holding company of SRLEV) reached an agreement with the unions on a new collective pension agreement. The pension agreement includes the following agreements:

- the target retirement age is increased to 67 years;
- the accrual rate of the old-age pension (OP) is increased to 2.15%;
- the surviving dependants pension remains 70% of the OP, but is higher due to a higher OP accrual rate; and

- the ‘Waiver of premium for disability’ is brought within the fiscal frameworks, in which the reduction of the accrual is offset by a later end date of the pension accrual.

By modifying SNS REAAL’s pension scheme, it now also fits within the fiscal framework of 2014, which was adjusted with effect from 1 January 2014. Since no agreement was reached on other CLA issues, the revised scheme is included in a separate collective pension agreement or recorded in a deed of amendment to the current collective agreement. As a collective agreement continues to be in force until a new collective agreement is reached, the terms and conditions of employment of the current collective agreement remain applicable to employees.

11.9 SNS REAAL Pension Fund

All staff of SRLEV is employed by SNS REAAL NV. As of 1 January 2014, the pension fund increased the accrued pensions and retirement benefits by 1.41%. Almost as much as the price increase in 2013 (1.56%). After two years of no indexation, the pensions kept pace with price development. The coverage ratio of the pension fund SNS REAAL at the end of October (reference date for indexation decision) amounted to 117.1%. This is higher than the legally required coverage ratio. After the increase, the coverage ratio remains above 115%, in line with the pension fund’s indexation policy.

In 2013, independent Dutch pensions and investor news magazine 'Nederlands Pensioen & Beleggingsnieuws' (NPN) proclaimed SNS REAAL’s pension fund ‘Pension fund of the Year’. The NPN awards are recognition for the efforts made to preserve the Dutch pension system. The pension fund scored well in all areas: management structure, clear communication and reporting to participants, and financial soundness.

In the summer of 2013, the SNS REAAL Pension Fund conducted a survey among participants and pensioners. The survey shows that many employees and pensioners are worried about their pension, while the pension fund currently has sufficient capital at its disposal to meet all of its obligations. The pension fund uses the results of the survey to improve its communication policy. Information on the content and the choices of the pension scheme in particular deserves extra attention. The same is true of the pension fund’s financial position. Also, there is still much to do to improve involvement of the pension scheme’s participants (especially young people). The first steps have been taken by updating the website and rewriting important letters in plain language and testing them in a participant panel.

Report of the Supervisory Board

12 Report of the Supervisory Board

Members of the Supervisory Board of SNS REAAL are also member of the Supervisory Board of SRLEV. For this reason, meetings of the Supervisory Board of SNS REAAL are combined meetings, and the agenda of the Supervisory Board includes items specifically to SRLEV. As a result, the following sections are an extraction of the specific items in relation to SRLEV of the Report of the Supervisory Board of SNS REAAL.

For a full version of the Report of the Supervisory Board of SNS REAAL we refer to the annual report of SNS REAAL, available on www.snsreaal.nl

12.1 Main topics and discussions

2013 was an exceptional year for SRLEV. During the first month of 2013, SNS REAAL fully focused on finding a comprehensive solution for strengthening the capital position of SNS REAAL. The Dutch Minister of Finance finally nationalised SNS REAAL on 1 February 2013. The public outcry over this nationalisation was considerable. In the period after 1 February 2013, SNS REAAL actively worked on the implementation of all nationalisation measures.

In August 2013, the Ministry of Finance’s restructuring plan for SNS REAAL was submitted to the European Commission. Partly in this context, SNS REAAL began the financial disentanglement of the holding company, SNS bank NV and REAAL NV. The European Commission published its final decision on 19 December 2013.

Partly due to the financial crisis, customers, investors, legislators, regulators and other stakeholders make higher demands on the way in which financial institutions run their business. The Supervisory Board and the Executive Board are constantly aware that SLREV must continue to adapt to the changing vision on the financial sector. The financial sector has not yet regained the confidence of politicians and society. Corporate Social Responsibility in the broadest sense of the word is still a topical issue and is embedded in SRLEV. With its mission, core value and strategy and compliance with the Insurance Code, SRLEV takes its responsibility and makes a contribution to restoring trust in and improved functioning of the Dutch financial sector. Continuous awareness of and giving meaning to putting customers and customer's interests first, still remain important. In various places in this annual report, we describe how SRLEV gives substance to this responsibility.

In the course of the year, the other important subjects included the capital position of SRLEV, risk management and risk appetite, the administrative organisation (system of internal control), the solvency, good customer service, the optimisation of putting the customer and the customer’s interests first, the impact of the nationalisation on the personnel, changing laws and regulations and the large number of projects.

12.2 Composition of the Supervisory Board

On 1 February 2013, Rob Zwartendijk stepped down as Chairman of the Supervisory Board. As Vice-Chairman, Piero Overmars temporarily fulfilled the role of Chairman until 1 November 2013. The composition of the Supervisory Board changed on 1 November 2013. On that date, Piero Overmars, Jaap Lagerweij, Robert Jan van de Kraats and Herna Verhagen stepped down as Supervisory Board members. An Extraordinary General Meeting resolved to reduce the number of Supervisory Board members to seven as from the aforementioned date. This reduction of the number of members came in response to the 2012 evaluation. The three vacancies on the Supervisory Board arising from this were filled by Jan Nooitgedagt, Jan van Rutte and Monika Milz as from 1 November 2013. Jan Nooitgedagt was also appointed Chairman of the Supervisory Board. The new members were also appointed to the Supervisory Boards of SNS Bank NV, REAAL NV and SRLEV NV. Monika Milz was appointed at SNS REAAL NV in accordance with the reinforced right of recommendation of the SNS REAAL Central Works Council.

The new members who joined the Supervisory Board on 1 November 2013 have been acquainted with their duties through various meetings with the departing Chairman, the incumbent Supervisory Board members, the Executive Board members and key employees of SNS REAAL.

In the Supervisory Board's view, all Supervisory Board members are independent, which means that best practice provision III.2.1 of the Corporate Governance Code has been met.

For more information on the composition of the Supervisory Board and its members in 2013, we refer to the annual report of SNS REAAL NV, available on www.snsreaal.nl

12.3 Meetings of the Supervisory Board

12.3.1 Main topics and discussions

In 2013, the Supervisory Board met more frequently than usual. More than twenty meetings took place in the months of January, February and March. In the period preceding SNS REAAL's nationalisation, effective on 1 February 2013, additional meetings were scheduled in connection with various scenarios regarding the strategic reorientation (focusing on both strategic restructuring and the strengthening and simplification of SNS REAAL's capital base). The subsequent months mainly revolved around identifying the effects of SNS REAAL's nationalisation. Starting in April 2013, the frequency returned to normal, even though the number of meetings was still more than usual. The Supervisory Board met twice in April, three times in May, twice in June and once per month from July to December.

Despite the high frequency of the meetings and the fact that many additional meetings had to be scheduled at short notice, the number of absent Supervisory Board members was always limited. As a rule, absent members of the Supervisory Board gave their input on topics for consideration to the Chairman of the Supervisory Board beforehand, or to the entire Supervisory Board. Based on a normal frequency of six meetings per year, the attendance rate was above average. This attests to the Supervisory Board's high level of commitment. Several Supervisory Board members mentioned this commitment in the annual evaluation as one of the Supervisory Board's strengths.

At every regular Supervisory Board meeting, updates are given on the SNS REAAL business units. Attention is also paid to the theme of Putting the interests of customers first. This subject was separately focussed on in more detail in December.

Notwithstanding the considerable increase in workload, SRLEV's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Solvency II), an increased number of inquiries from regulators and regulatory requirements, necessary investments in the data warehouse infrastructure and organisational changes within SRLEV, placed pressure on the available qualitative attention for the internal control framework, specifically with respect to the linkage between internal control at group and business units level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team of the insurer will give further substance to an integrated control framework.

In the autumn of 2013, the Supervisory Board devoted special attention to the solvency and the elaboration of the various strategic solutions to improve the solvency.

In 2013, the Supervisory Board's work included the following:

- the strategic reorientation (January)
- (identification of) the impact of the nationalisation (including the preparation of a profile for a new Chairman and the amendments to the regulations in line with the new situation (relaxed large company regime)) (February and March)
- discussion of the contact with De Nederlandsche Bank as regulatory authority and the Ministry of Finance as the new sole shareholder of SNS REAAL (February, March, and onwards)
- discussion of SNS REAAL's new strategy in preparation of the restructuring plan for the European Commission

(April)

- the allocation of duties within the Executive Board (May)
- the selection of new members for the Supervisory Board (May)
- the 2012 annual results, the annual report and the financial statements of SNS REAAL NV for 2012 (May and June)
- the assessment and approval of risk appetite (May)
- the amendment of SNS REAAL's Articles of Association (May)
- the EC restructuring plan (June)
- REAAL's capitalisation and solvency (September, October, November, December)
- the changes to the senior management structure of the financial holding company, the bank and the insurer (September)
- the change to the composition of the various committees within the Supervisory Board (November)
- the 2014 – 2016 Operational Plan (December)
- Presentation by the business units on putting the interests of customers first (December)

Feedback on the meetings held by the small Supervisory Board committee, the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee is provided during the Supervisory Board meetings.

12.3.2 Presence of the external auditor

The external auditor is present at all Audit Committee meetings and at least once a year at a meeting of the Risk Committee. In 2013 the external auditor attended several meetings of the Risk Committee. The external auditor has a standing invitation to attend meetings of the Supervisory Board. In 2013, the external accountant did not attend any plenary meetings of the Supervisory Board.

12.4 Committee meetings

Until 11 November 2013, the Supervisory Board consisted of the following four committees:

- Audit Committee
- Risk Committee
- Remuneration Committee
- Nomination Committee

On 11 November 2013, the Supervisory Board resolved to merge the Nomination Committee and the Remuneration Committee into a single new committee: the Remuneration & Nomination Committee.

Every committee prepares the decision making of the Supervisory Board in respect of the duties assigned to it and reports to the Supervisory Board.

For a description of the duties of the various committees and details on the composition of the committees and the regulations of each committee we refer to the annual report of SNS REAAL, available at www.snsreaal.nl

12.5 Closing words

The Supervisory Board explicitly wishes to express its gratitude and appreciation to all employees of SRLEV NV, in particular for their engagement and commitment. Great demands have been made on them over these last months, both in and outside the office. This has not always been easy for the people involved. Despite these developments and the continuing negative sentiment towards the financial services industry, SRLEV NV employees continue to dedicate themselves to the company with great enthusiasm. The Supervisory Board is fully aware that this should not be taken for granted and wishes to express its gratitude for this.

Exceptional dedication was also demanded of SRLEV NV's management. Despite everything, working relations with the Supervisory Board were good. For this too, the Supervisory Board wishes to express its gratitude.

Finally, the Supervisory Board wishes to express its special thanks for the unyielding commitment and dedication that Piero Overmars, Robert-Jan van de Kraats, Herna Verhagen and Jaap Lagerweij have shown to SRLEV NV during these past months and in the period before that too.

Alkmaar, 15 April 2014
On behalf of the Supervisory Board
Jan Nooitgedagt, Chairman

Corporate governance

13 Corporate governance

This chapter contains a review of the members of the Supervisory Board, followed with an outline of the application of the Dutch Governance Principles of the Dutch Association of Insurers (Insurance Code) that apply to SRLEV NV. The chapter concludes with the statement required pursuant to the law.

For more detailed information with respect to SNS REAAL NV on Corporate Governance, the Executive Board, the Supervisory Board, shareholders and shares, reference is made to SNS REAAL's Annual Report 2013.

13.1 The Management board

As of the date of publication of this Annual Report, the Management Board of SRLEV NV comprises the following members:

W.H. Steenpoorte (Chairman)
M.B.G.M. Oostendorp
D.J. Okhuijsen

On 1 February 2014, Maarten Jan-Paul Edixhoven stepped down from the Mangement Board.

13.2 The Supervisory Board

As of the date of publication of this Annual Report, the Supervisory Board of SRLEV comprises the following members:

- Jan Nooitgedagt (Chairman)
- Charlotte Insinger
- Monika Milz
- Jos Nijhuis
- Jan Nijssen
- Jan van Rutte
- Ludo Wijngaarden

Monika Milz is a German national. All other members of the Supervisory Board are Dutch nationals.

Members of the Supervisory Board are appointed for a term of four years. Reappointment for a subsequent four-year term is only approved after careful consideration, and at most twice terms. When reappointing Supervisory Board members, due consideration is given to the profile of the Supervisory Board, the performance of the individual concerned, terms of office and other criteria to be determined.

The Supervisory Board meets at least six times a year in accordance with a schedule drawn up annually. The Supervisory Board takes decisions by a majority of votes. The Supervisory Board has drawn up a Regulation that specifies and supplements various provisions of the articles of association. Said Regulation also list additional powers. All members of the Supervisory Board have affirmed their acceptance of the content of this Regulation and compliance with the rules set out in the Regulation.

SNS REAAL is what is known as a two-tier company with a mitigated two-tier entity regime. Following the nationalisation of the company, the General Meeting of Shareholders has the power to appoint members of the Executive Board. This power was formerly exercised by the Supervisory Board. Members of the Executive Board are appointed by the General Meeting of Shareholders based on nominations proposed by the Supervisory Board.

The Supervisory Board has formed three committees from among its ranks. As of 31 December 2013, said committees comprised the following members:

- Audit Committee: Jos Nijhuis (Chairman), Jan Nooitgedagt, Ludo Wijngaarden and Jan van Rutte.
- Remuneration and Nomination Committee: Ludo Wijngaarden (Chairman), Jan Nooitgedagt, Charlotte Insinger and Monika Milz.
- Risk Committee: Jan Nijssen (Chairman), Jan Nooitgedagt, Charlotte Insinger and Jan van Rutte.

The previously separate Nomination Committee and Remuneration Committee were combined to create a single Remuneration and Nomination Committee with effect from 11 November 2013.

The Supervisory Boards of SNS Bank NV, REAAL NV and SRLEV NV comprise the same members as the Supervisory Board of SNS REAAL.

13.3 Insurance Code

Compliance with the Code and transparent accountability

Number	Insurance code	Application by SRLEV
Application of the Code		
1.1	Insurers shall, in principle, apply the principles of the Code. The application of the principles depends in part on the activities and other specific characteristics of the insurer (and of the group if the insurer is part of a group). The insurers subject to the Code differ from each other in many ways. For example, they may vary in nature or size, operate in different markets or submarkets, have a national or international focus or have different corporate governance structures. Where indicated because of these differences, the principles of the Code can be applied proportionately. Departures from the Code, if substantiated, can therefore be justified.	The Governance Principles (the Code) were drafted by the Dutch Association of Insurers and most recently amended on 1 July 2013. The Code applies to the Insurance activities of SNS REAAL NV, (SNS REAAL). When the Banking Code came into force SNS REAAL decided to immediately apply the principles to the entire Group, including its Insurance activities, as much as possible. This means that SNS REAAL in fact started to apply both Codes (the Banking Code and the Insurance Code) to all its activities in April 2009. In its 2011 Annual Report, SNS REAAL first reported on compliance with the Code, SRLEV NV (SRLEV) publishes its own annual report, in which it reports separately on compliance with the Code.
Accountability of the Code		
1.2	For each provision of the Code, the insurer shall state with reasons in its annual report or corporate annual report and on its website or corporate website how it applies the relevant provision. If the insurer does not comply with the provision or does not do so in full, it shall explain why. The text in the annual report and on the website in which an account is given must be easy to find.	Reporting on compliance with the Code in an annual report is a snapshot in time and limited by its nature. A current description of the way in which SRLEV applies the principles is given below for each chapter of the Code.

Supervisory board

Number	Insurance code	Application by SRLEV
Composition and expertise		
2.1.1	The supervisory board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board, independence and diversity are preconditions for the supervisory board to perform its tasks properly.	SRLEV applies this principle, SRLEV has a Supervisory Board consisting of seven members with broad and diverse backgrounds. The composition of the Supervisory Board of SRLEV is identical to the composition of the Group Supervisory Board (SNS REAAL). The Supervisory Board comprises five men and two women. The diversity on the Supervisory Board is seen in factors like sex, age and professional background. All members meet the independence criteria formulated in the Dutch Corporate Governance Code.

2.1.2	The supervisory board shall have a sufficient number of members to properly perform its function, including in its committees. The appropriate number of members depends on the nature, size and complexity of the insurer.	SRLEV applies this principle. On 18 October 2013 it was decided that the number of Supervisory Board members would be reduced to seven with effect from 1 November 2013. This number is more appropriate for reasons of the Supervisory Board's ability to act decisively. Until 2008, SNS REAAL's Supervisory Board comprised seven members. It was expanded to nine members following the state aid received in 2008. The plan has always been to reduce the Supervisory Board to seven members again, 2013 was the obvious moment. Each year, the Supervisory Board discusses the desired profile, composition and competency of the Supervisory Board.
2.1.3	The members of the supervisory board shall have thorough knowledge of the insurer's functions in society and of the interests of all parties involved in the insurer. The supervisory board shall carefully consider the interests of all parties involved in the insurer, such as the insurer's clients, its shareholders and its employees.	SRLEV applies this principle. See chapter 17 of the Annual Report of SNS REAAL for more information about the backgrounds and knowledge of the Supervisory Board members. The second sentence of this principle is included verbatim in Article 7.3 of the Regulations of the Supervisory Board. All of the Supervisory Board members have committed themselves to this Regulation.
2.1.4	Each member of the supervisory board shall be capable of assessing the main aspects of the insurer's overall policy in order to form a balanced and independent opinion about the basic risks involved. Each member of the supervisory board shall also possess the specific expertise needed to perform his or her role in the supervisory board. To this end, whenever a vacancy arises on the supervisory board, an individual profile shall be drawn up for the new member of the board that is in line with the profile defined for the entire board.	SRLEV applies this principle. Each Supervisory Board member has sufficient knowledge and experience to assess the main aspects of the Insurance activities' policy and to form an independent opinion of the basic risks. Decisions regarding risk management and risk control are prepared by the Risk Committee (RC) and the Audit Committee (AC), respectively. These committees are carefully composed on the basis of knowledge and experience. Nominations to the Supervisory Board are made using an individual profile for the relevant vacancy. This profile is based on the general profile of the Supervisory Board, which has been brought in line with the Code's principles.
2.1.5	As part of the process to fill the vacancy of chairman of the supervisory board, an individual profile shall be drawn up that also focuses on the insurer's requirements in terms of expertise and experience in relation to the financial sector and familiarity with the socio-economic and political culture and the social environment of the insurer's main markets.	SRLEV applies this principle. For an explanation of the application of this principle, reference is made to the relevant remarks in 2.1.4. on the understanding that in the event of a vacancy for the position of Chairman, an individual profile will be drawn up with a special focus on the qualifications mentioned in this principle.
2.1.6	Each member of the supervisory board – the chairman in particular – shall be sufficiently available and contactable to properly perform his or her tasks in the supervisory board and the supervisory board's committees on which he or she serves.	SRLEV applies this principle. Under the Regulations of the Supervisory Board, each Supervisory Board member is sufficiently available and contactable to properly perform his or her tasks in the Board and the Board committees on which he or she serves. If a Supervisory Board member is regularly absent at meetings of the Supervisory Board, he or she will be called to account by the Chairman of the Supervisory Board. In 2013, none of the Supervisory Board members were frequently absent. Outside regular meetings, additional meetings were convened and several topics were discussed by telephone in 2013.
2.1.7	Each member of the supervisory board shall receive suitable compensation for the amount of time that he or she spends on supervisory board activities. This compensation shall not depend on the insurer's results.	SRLEV applies this principle. Supervisory Board members receive a remuneration that is determined by the General Meeting of Shareholders. This remuneration does not depend on the operating results of SRLEV or its business units. The Supervisory Board members' remuneration is put on the agenda of the Annual General Meeting of Shareholders every two years.
2.1.8	The chairman of the supervisory board shall organise a programme of continuous education, with the aim of maintaining the expertise of the supervisory board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the insurer and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits. Every member of the supervisory board shall take part in the programme and meet the requirements of continuous education.	SRLEV applies this principle, Supervisory Board members are encouraged to maintain their expertise at the required standard and improve it where necessary. In this context, a programme is compiled for the Supervisory Board every year, which includes lectures by internal and external speakers during half-day sessions throughout the year. Training courses within the framework of continuous education are scheduled immediately after regular Supervisory Board meetings, as a result of which all Supervisory Board members who are present participate in the courses.See section 17.3 of the SNS REAAL Annual Report for the topics addressed in 2013 within the context of lifelong learning.
2.1.9	The assessment of the effectiveness of the continuous education referred to in principle 2.1.8 shall be part of the annual evaluation performed by the supervisory board.	SRLEV applies this principle. The assessment of the effectiveness of continuous education always forms part of the annual evaluation. This assessment was most recently made in December 2013.

2.1.10	In addition to the supervisory board's annual self-evaluation, the functioning of the supervisory board shall be evaluated under independent supervision once every three years. The involvement of each member of the supervisory board, the culture within the supervisory board and the relationship between the supervisory board and the executive board shall be part of this evaluation.	SRLEV applies this principle. The Supervisory Board annually evaluates its own performance and that of its committees, most recently in December 2013. At the end of 2012, this evaluation was performed under external independent supervision.

Tasks and working methods

2.2.1	As part of its supervisory tasks, the supervisory board shall pay special attention to the insurer's risk management. All discussions about risk management shall be prepared by a risk committee or a similar committee, which committee shall be appointed by the supervisory board from its ranks for this purpose.	SRLEV applies this principle. The Supervisory Board has set up a RC. This RC is charged with the task of preparing the Supervisory Board's decision-making in fields including the following: (i) the profile of SRLEV's financial and non-financial risks (in particular whether, at a strategic level, capital allocation, investment policy and liquidity requirement correspond to the approved risk appetite), (ii) the management of SRLEV's financial and non-financial risks, including the evaluation of SRLEV's Whistleblowing Scheme, (iii) the structure and operation of the risk management organisation, including supervision of compliance with the relevant laws and regulations and the functioning of codes of conduct. and (iv) the applications of information and communications technology from the perspective of risk control. The RC must consist of at least three members. meets at least three times a year and discusses SRLEV's remuneration policy from the perspective of risk management at least once a year.
2.2.2	Both the risk committee and the audit committee shall be subject to specific requirements as regards competency and experience. For example, a number of members of the risk committee must have sound knowledge of the financial aspects of risk management or the experience needed to make a thorough assessment of risks. A number of members of the audit committee must have sound knowledge of financial reporting, internal control systems and audits or the experience needed to thoroughly supervise these areas.	SRLEV applies this principle. The Regulations of the Supervisory Board and its committees satisfy the principles of the Code. Decision-making by the Supervisory Board is prepared in several committees composed of members with relevant and specific knowledge and experience. See section 16.4 of the Annual Report of SNS REAAL for more information about the backgrounds and knowledge of the RC and AC members.

Executive board

Number	Insurance code	Application by SRLEV
Composition and expertise		
3.1.1	The executive board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board and diversity are preconditions for the executive board to perform its tasks properly.	SRLEV applies this principle. The SRLEV Management Board and the management teams of the various business units consist of members with broad and varying backgrounds, experience and knowledge. The diversity on the Management Board is seen in factors like sex, age and professional background. For more information about diversity, reference is made to section 17.1 of the Annual Report of SNS REAAL.
3.1.2	Each member of the executive board shall possess a thorough knowledge of the financial sector in general and the insurance sector in particular. Each member of the executive board shall have thorough knowledge of the insurer's functions in society and of the interests of all parties involved in the insurer. In addition, each member of the executive board shall possess thorough knowledge so that he or she is able to assess and determine the main aspects of the insurer's overall policy and then form a balanced and independent opinion about the risks involved.	SRLEV applies this principle. The Management Board is composed in such a way that it is able to perform its tasks properly. The Management Board endeavours to ensure that its members represent the areas of expertise that are important to SRLEV, its subsidiaries and their associated businesses. In consultation with the Management Board, the Supervisory Board may draft a profile describing the integrity and, in the Supervisory Board's judgement, required expertise and availability of the Management Board, inter alia for the purpose of directing and controlling SRLEV. See section 17.1 of the Annual Report of SNS REAAL for more information about individual members of the Management Board.
3.1.3	The chairman of the executive board shall organise a programme of continuous education, with the aim of maintaining the expertise of the executive board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the insurer and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits.	SRLEV applies this principle, SRLEV's senior management members are encouraged to maintain their expertise at the required standard and improve it where necessary. In this context, a programme is internally compiled every year, which includes lectures by internal and external speakers during half-day sessions throughout the year. The members of the SRLEV Management Board and the management teams of the various business units also, at their discretion, take training courses and follow training programmes organised by external providers that are relevant to them.
3.1.4	Every member of the executive board shall take part in the programme referred to in 3.1.3 and meet the requirements of continuous education. They have to satisfy this condition in order to sit on the executive board. The supervisory board shall ensure that the executive board members possess the necessary expertise.	SRLEV applies this principle. See chapter 17 of the Annual Report of SRLEV.
3.1.5	Each year, the insurer shall indicate in its annual report in what manner it implemented principles 3.1.3 and 3.1.4.	SRLEV applies this principle. Each year, SRLEV reports on the way in which it implemented principles 3.1.3 and 3.1.4. See chapter 17 of the Annual Report of SRLEV.
3.1.6	Taking into account the risk appetite approved by the supervisory board, the executive board shall ensure a balanced assessment between the commercial interests of the insurer and the risks to be taken.	SRLEV applies this principle. The Supervisory Board approves the risk appetite at least once a year, after it has been discussed in the Supervisory Board's RC, as this risk appetite is submitted by the Management Board. The Management Board ensures a balanced assessment at the Insurance activities between its commercial interests and the desired risk profile. These discussions of the risks to be taken include a focus on the interests of financial stability and the impact that systemic risks may have on the Insurance activities' risk profile. The Supervisory Board is regularly informed of the actual risk profile in relation to the approved risk appetite.
3.1.7	Within the executive board one member shall be responsible for preparing the decision-making with regard to risk management. This member of the executive board shall be involved, in a timely manner, in the preparation of decisions that are of material significance for the insurer as regards the risk profile, especially where these decisions may result in departure from the risk appetite approved by the supervisory board. Risk management shall also include a focus on the interests of financial stability and on the impact that systemic risk could have on the risk profile of the insurer.	SRLEV applies this principle. In the SRLEV Management Board, the CFRO is responsible for preparing decision-making in the area of risk management. The CFRO is closely involved in preparations for decision-making regarding decisions that are of material importance for SRLEV's risk profile. See chapter 17 of the Annual Report of SRLEV for more information about risk management.
3.1.8	The member of the executive board who is responsible for preparing the decision-making with regard to risk management may combine his or her function with other focus areas, on the condition that he or she does not bear any individual commercial responsibility for the commercial task areas and operates independently from those areas.	SRLEV applies this principle. Within the SRLEV Management Board, the CFRO does not bear any individual responsibility for the commercial task areas and operates independently from those areas.

Executive board

Number	Insurance code	Application by SRLEV
Tasks and working methods		
3.2.1	In all of its actions, the insurer's executive board shall ensure that it carefully considers the interests of all parties involved in the insurer, such as the insurer's clients, its shareholders and its employees. These considerations shall take into account the continuity of the insurer, the environment in society in which the insurer operates and legislation, regulations and codes that apply to the insurer.	SRLEV applies this principle. The principles from the Code pertaining to corporate culture form part of SRLEV's culture. Due care is exercised to consider the interests of all parties involved in SRLEV. One of the pillars of SRLEV's strategy is putting customers and customer's interests first, which is embedded in its mission, core value and strategy. This has been implemented, for example, by incorporating the core value CARE! in the appraisal system for SRLEV employees and in the leadership profile for managers. The preamble to the Regulation of the SRLEV Management Board includes the following in this regard: "In achieving its objectives SNS REAAL is aware of its responsibility with regard to the interests of its stakeholders, meaning our clients, our employees, our shareholder and our business partners. We believe that the essence of corporate sustainability is that SNS REAAL wants to create short-term as well as long-term value and contribute to the company's continuity and to society. The realisation of this goal requires a professional, customer-driven, ethical and committed manner of working and communication. In everything it does, SNS REAAL ensures that all the interests of the parties involved with SNS REAAL, such as its clients, shareholder and employees, are carefully balanced. In so doing, account is taken of SNS REAAL's continuity, the social environment in which SNS REAAL operates and the legislation, regulations and codes applicable to SNS REAAL. At SNS REAAL we put our customer's interests first." The members of the SRLEV Management Board have declared that they agree to the contents of the Regulation, will comply with the rules in the Regulation and will act in accordance with the premises of the preamble.
3.2.2	Maintaining a continued focus on its clients' interests is a necessary precondition for the continuity of the insurer. Without prejudice to the principle formulated in 3.2.1. the executive board shall ensure that the insurer always treats its clients with due care. The executive board shall see to it that the duty of care towards the client is embedded in the insurer's culture.	SRLEV applies this principle. In 2013, too, SRLEV took significant steps to better serve its customers, for example by (i) checking with customers whether they have a proper understanding of the product they purchased (through an advisor), (ii) working with a customer council, (iii) making communications more comprehensible, (iv) professionalising the customer information system, and (v) embedding our goal to put customer's interests first in the organisation's genes by involving employees more actively. This is an ongoing process in which new initiatives are continuously being developed and in which steps that have already been taken are being further improved and optimised.
3.2.3	The members of the executive board shall perform their tasks in a meticulous, expert and fair manner, taking into account the applicable laws, codes of conduct and regulations. Each member of the executive board shall sign a moral and ethical conduct declaration. A declaration has been included in the explanatory notes to this Code. This declaration is a model declaration, which means that each insurer can supplement it as it deems appropriate.	SRLEV applies this principle. The members of the SRLEV Management Board have signed an Integrity Statement, followed by the Moral-Ethical Statement (the text of the Statement can be found on www.snsreaal.nl). The principles included in this Statement provide all SRLEV personnel with an ethical framework to guide them in their conduct based on SNS REAAL's Code of Conduct (the text of this Code of Conduct can also be found on www.snsreaal.nl). The Moral-Ethical Statement emphasises the importance of putting customer's interests first in the Insurance activities' day-to-day operations, the responsibility to act with integrity and responsibility, and the role of the Insurance activities in society.
3.2.4	The executive board shall ensure that the declaration referred to in principle 3.2.3 is translated into principles that form guidelines for the behaviour of all of the insurer's employees. The content of these principles shall be expressly pointed out to every new employee of the insurer when he or she joins the insurer by inserting a reference to these principles in the new employee's contract of employment. Every new employee shall be required to comply with these principles.	SRLEV applies this principle. The employment contract of every new employee refers to the SNS REAAL Code of Conduct and states that it must be complied with (the text of this Code of Conduct can also be found on www.snsreaal.nl). In addition, obligatory e-learning programmes are in place for all SRLEV employees, in which the significance of complying with the SNS REAAL Code of Conduct is emphasised.

Risk management

Number	Insurance code	Application by SRLEV
4.1	The executive board – and primarily the chairman of the executive board – shall be responsible for adopting, implementing, monitoring and, where necessary, adjusting the insurer's overall risk policy. The executive board shall propose the risk appetite to the supervisory board for approval at least once a year. Any material changes to the risk appetite in the interim shall also require the supervisory board's approval.	SRLEV applies this principle. The risk management organisation of SRLEV is structured in accordance with the principles of the Code. It has been embedded in the regulations of the Management Board, Supervisory Board and RC. These regulations describe and set out the duties and responsibilities of the various bodies and officers involved (SNS REAAL Executive Board, SRLEV Management Board, CFRO, Supervisory Board, RC). The Group Risk Committee (GRC) has been set up at the level of SNS REAAL. The GRC defines the desired risk profile for financial and non-financial risks and determines the risk appetite, risk policy frameworks and risk management framework for SNS REAAL and its business units. At Group level, separate Asset & Liability Committees (ALCOs) also exist for the Banking and Insurance activities, which meet at least once every two weeks. These committees are charged with the task of identifying, monitoring and managing the financial risks of SNS REAAL and the Banking and Insurance activities, respectively, with the aim of preparing controlled long-term value growth of the existing balance sheet and decision-making by the Executive Board. The CFRO of SNS REAAL (Chairman) represents the Executive Board in the Group ALCO. In addition, a committee exists that formulates policy, standards and limits in the field of non-financial risks, which is the Group Governance, Operational Risk & Compliance Committee (GORCC). The Executive Board is represented in this Committee.
4.2	The supervisory board shall supervise the risk policy pursued by the executive board. As part of its supervision, the supervisory board shall discuss the insurer's risk profile and assess at a strategic level whether capital allocation and liquidity impact in the general sense are in line with the approved risk appetite. In the performance of this supervisory role, the supervisory board shall be advised by the risk committee formed from the ranks of the supervisory board for this purpose.	SRLEV applies this principle. Under Article 7.4 of the Supervisory Board Regulation, the Supervisory Board must pay special attention to SRLEV's risk management when exercising its supervision. All discussions about risk management are prepared by the RC. The Supervisory Board supervises the risk policy pursued by the Executive Board. As part of its supervision, the Supervisory Board discusses the risk profile and assesses at a strategic level whether capital allocation and liquidity impact in the general sense are in line with the approved risk appetite. In the performance of this supervisory role, the Supervisory Board is advised by the RC. At least once a year, the Supervisory Board discusses the strategy and the main risks associated with the business, as well as the results of the Executive Board's assessment of the structure and effectiveness of the internal risk management and control systems, and any significant changes to the same. Reference to the discussions is made in the Report of the Supervisory Board included in the Annual Report (see chapter 16 of the Annual Report of SNS REAAL). The financial and non-financial risks are reported separately every three months. These quarterly reports provide the Management Board. the RC and the Supervisory Board with an overview of the high-risk issues and the main developments in financial and non-financial risks.
4.3	The supervisory board shall assess periodically at the strategic level whether the commercial activities in the general sense are appropriate in the context of the insurer's risk appetite. The executive board shall provide the supervisory board with the relevant information for this assessment in such a way that the supervisory board is able to form a sound opinion.	SRLEV applies this principle. Article 7.4 of the Supervisory Board Regulation stipulates that the Supervisory Board assesses periodically at the strategic level whether the commercial activities in the general sense are appropriate in the context of SRLEV's risk appetite in relation to the return. The Executive Board provides the Supervisory Board with the relevant information for this assessment in such a way that the Supervisory Board is able to form a sound opinion.

4.4	The executive board shall ensure that risk management is arranged adequately so that the executive board is aware in good time of any material risks run by the insurer in order that these risks can be managed properly. The executive board shall take any decisions that are of material significance for the risk profile, the capital allocation or the liquidity impact.	SRLEV applies this principle. For the purposes of risk management, SRLEV distinguishes three responsibilities based on the 'Three Lines of Defence' model used as best practice in the financial sector. This distinction defines clear responsibilities and guarantees that risk management is a subject taken up by the entire organisation: The first line has an operational role, focusing on the primary and operational process of the business activities. Within the policy frameworks and subject to internal procedures and risk limits, the objective of the first line is to achieve optimum risk/return ratios. Business plans are drawn up in the first line. The second line ('Risk Control') first of all has a controlling and accepting role in respect of the transactions proposed by the first line. Risk Control supervises the correct execution of approved actions and transactions in the first line and is responsible for the risk profile against the backdrop of risk appetite. Risk management processes occurring in correlation with other business units are coordinated via the relevant Group staff departments. Secondly, Risk Control has a framework-formulating and monitoring role. It draws up the policy frameworks, but leaves their execution and acceptance to the first line. The second line also assesses policy compliance on a regular basis, using risk reports and its own observations. The third line has a supervising and safeguarding role. This line supervises the proper functioning of the risk management function, conducts audits and identifies any defects in risk governance, risk systems and internal controls. In addition, it checks whether measures have been adequately carried out and have been made compliant. The third line guarantees the effectiveness of risk governance to the AC and the RC, the Management Board and the Supervisory Board. The responsibilities within the risk management organisation have been clearly defined, with the GRC (at Group level) being the highest risk management body reporting to the SNS REAAL Executive Board and primarily setting frameworks, SNS REAAL's Chief Financial Officer is also the Chief Risk Officer. Risk owners have been appointed within the management teams of the business units. These owners are each individually responsible for the formulation and execution of the risk policy for their designated areas of attention.
4.5	Each insurer shall have a Product Approval Process. The executive board shall organise the Product Approval Process and shall be responsible for the process working properly. Products that go through the Product Approval Process at the insurer shall not be launched on the market or distributed without careful consideration of the risks by the insurer's risk manager and a careful assessment of any other relevant factors, including the duty of care towards the client. Based on an annual risk analysis, the in-house auditor shall check whether the product approval process has been designed properly, is present and is working effectively and shall then inform the executive board and the relevant supervisory board committee (risk committee or similar committee) about the results.	SRLEV applies this principle. The Product Approval Process is in accordance with the principles of the Code and an audit is carried out for every business unit each year. The Product Approval Process is executed by Product Market Pricing Committees (PMPCs). At Group level (SNS REAAL), PMPCs are active for formal product approval, one for each business unit. For SRLEV NV, this is the PMPC of REAAL Life and Zwitserleven, The PMPCs have been placed under the direct responsibility of the Group Risk Committee (GRC). The PMPCs are made up of members of the Executive Board as well as risk experts. Through mandatory consultation, the Group staff departments are involved in product approval preparations. The PMPC's objects include (i) determining the quality of risk control in product designs and product management in a broad sense prior to and during their provision to customers and where necessary prescribing changes to maintain this quality, (ii) pursuing a correlation between volume, return and risk of existing and new products and, finally, (iii) approving product launches and/or changes. The PMPC has decision-making powers within the frameworks established by the GRC. The PMPC bases its decisions partly on written opinions given by risk management experts of departments designated for this purpose.

Audit

Number	Insurance code	Application by SRLEV
5.1	The executive board shall ensure that a systematic audit is conducted of the management of the risks related to the insurer's business activities.	SRLEV applies this principle. The internal audit function is organised at Group level (Group Audit) and takes a systematic audit approach on the instructions of the SNS REAAL Executive Board and the SRLEV Management Board in order to evaluate and improve the effectiveness of risk management, internal control and governance activities of SNS REAAL and its business units.
5.2	Each insurer shall have its own, internal auditor who shall occupy an independent position within the insurer. The head of the internal audit team shall present a report to the chairman of the executive board and shall report to the chair of the audit committee.	SRLEV applies this principle. The internal audit function is organised at Group level and evolves continually. The mandate, structure and governance of the internal audit function comply with the principles of the Code and its work extends to all of SRLEV's activities, Group Audit (GA) reports to the Chairman of the SNS REAAL Executive Board and also has a reporting line to the AC of the Supervisory Board. In this way, the department is able to perform its activities independently of the business units and the departments of SRLEV.
5.3	The internal auditor shall have the task of assessing whether the internal control measures have been designed properly, are present and are working effectively. This assessment shall include the quality and effectiveness of the system of governance, risk management and the insurer's control procedures. The internal auditor shall report the findings to the executive board and the audit committee.	SRLEV applies this principle, GA takes a systematic audit approach based on a dynamic risk analysis in order to evaluate and improve the effectiveness of risk management, internal control and governance activities. The GA Director reports to the SNS REAAL Executive Board and the Supervisory Board's AC every quarter on the results of the reviews and audits performed. Group Audit is also responsible for carrying out the differentiated internal audit activities on behalf of SRLEV and line management. These audits focus on the (permanent) effect of the control measures included in procedures. In addition, various types of audits are performed at the request of the management boards, including certification activities for external parties.
5.4	The internal auditor, the external auditor and the supervisory board's risk committee and/or audit committee shall consult periodically, including as regards the risk analysis and the audit plan of both the internal auditor and the external auditor.	SRLEV applies this principle. The internal audit function and the external auditor periodically report the results of the reviews and audits performed to the AC of the Supervisory Board. The GA Director is responsible for annually updating the risk analysis and developing a long-term audit plan and an annual audit plan based on this risk analysis. The risk analysis and the audit plan of the internal audit function and the external auditor's audit plan are discussed with the Supervisory Board's AC.
5.5	As part of the general audit assignment for the financial statements, the external auditor shall produce a report for the executive board and the supervisory board which shall contain the external auditor's findings concerning the quality and effectiveness of the system of governance, risk management and the insurer's control procedures.	SRLEV applies this principle. Each year, GA and the external auditor jointly draft a management letter containing their findings concerning the quality and effectiveness of the system of governance, risk management and the control procedures of the Insurance activities. The external auditor also annually prepares an audit report. Both reports are discussed with the SNS REAAL Executive Board and the AC of the Supervisory Board.
5.6	The internal auditor shall take the initiative in arranging talks with De Nederlandsche Bank and the external auditor at least once a year to discuss each other's risk analysis and findings and each other's audit plan at an early stage.	Nederlandsche Bank (DNB) and the external auditor to discuss the risk analysis, the audit findings and the audit plan (and the progress made with the audit plan). In addition, the internal audit function regularly initiates bilateral talks with the external auditor and DNB.

Remuneration policy

Number	Insurance code	Application by SRLEV
Basis		
6.1.1	The insurer shall implement a meticulous, restrained and long-term remuneration policy that is in line with its strategy and risk appetite, objectives and values, taking into account the long-term interests of the insurer, the relevant international context and wider societal acceptance. The supervisory board and the executive board shall take this basis into account when performing their tasks in relation to the remuneration policy.	SRLEV applies this principle. The SNS REAAL Group Remuneration Policy states: "With our origin and background as a savings bank and insurer tracing its roots to the trade unions, SNS REAAL puts the interests of our customers in particular, but also other stakeholders like employees, shareholder and society, first." The Group Remuneration Policy complies with the relevant legal requirements, the Dutch Corporate Governance Code, the Banking Code, the Code and the Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2011 (Regeling Beheerst Beloningsbeleid Wft 2011). The Group Remuneration Policy applies to SRLEV and its business units. The Group Remuneration Policy is in accordance with and contributes to sound and effective risk management and does not encourage taking more risks than acceptable to the Company. At Group level (SNS REAAL) a remuneration risk analysis is made every year, the results of which are incorporated in the remuneration policy, SRLEV aims to pursue a socially responsible remuneration policy that can be properly explained to all stakeholders and does justice to the interests of those stakeholders. The objective is a good and competitive fixed income supplemented with a limited variable remuneration, with the exception of a few specific positions. Parties concerned are the Supervisory Board, the Remuneration & Nomination Committee, the RC, the Management Board and the audit departments.
Governance		
6.2.1	The supervisory board shall be responsible for the implementation and evaluation of the remuneration policy adopted with regard to the members of the executive board. The supervisory board also approves the remuneration policy for the senior management and oversees its implementation by the executive board. Additionally, the supervisory board approves the principles of the remuneration policy for other employees of the insurer. The insurer's remuneration policy shall also comprise the policy on awarding retention, exit and welcome packages.	In order to have an overview of the risks associated with the remuneration policy as a whole and adequately respond to these, the Supervisory Board approves (i) the remuneration of the members of the SRLEV Management Board, (ii) the remuneration policy for senior management, and (iii) the principles of the remuneration policy for other employees. The remuneration policy is also independently assessed in-house every year, which assessment includes all remuneration schemes. The annual assessment of the remuneration policy also covers the policy on and awarding of retention, welcome and exit payments.
6.2.2	The supervisory board shall annually discuss the highest variable incomes at the insurer. The supervisory board shall ensure that the executive board assesses whether variable incomes are consistent with the remuneration policy adopted by the insurer, and in particular whether they comply with the principles set out in this section. Furthermore, the supervisory board shall discuss material retention, exit and welcome packages, assess whether they are consistent with the remuneration policy adopted by the insurer and ensure that these packages are not excessive.	SRLEV applies this principle. As stated in the SNS REAAL Group Remuneration Policy, the remuneration policy is independently assessed in-house every year. The assessment is discussed in the Supervisory Board and includes material retention, exit and welcome packages. The Supervisory Board also decides on the total sum of variable payments and discusses the highest variable incomes and any particulars.

Remuneration policy

Number	Insurance code	Application by SRLEV
Remuneration of members of the executive board		
6.3.1	The total income of a member of the executive board shall be in reasonable proportion to the remuneration policy adopted by the insurer. At the time when his or her total income is decided, it shall be slightly below the median level for comparable positions both inside and outside the financial sector. The relevant international context shall be a major factor.	SRLEV applies this principle. The total income of any member of the Management Board is far below the median level of comparable positions inside and outside the financial sector. The policy for the Management Board is that the fixed income is slightly below the median level of the appropriate peer group and that no variable remuneration is awarded or paid. This is assessed every two years. The most recent assessment was made in October 2012.
6.3.2	In the event of dismissal of a member of the executive board, remuneration may not exceed one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for an executive board member who is dismissed during his or her first term of office, such board member shall be eligible for severance pay not exceeding twice the annual salary.	SRLEV applies this principle. The contracts with members of the Management Board stipulate that in the event of termination of the employment contract for any reason other than a change of control or due to a compelling reason attributable to the board member, the board member will be entitled to a severance payment calculated in accordance with the new (effective 1 January 2009) sub district court formula, with a maximum of one fixed annual salary. As a result of existing contractual arrangements, it is impossible to cap the severance payment in three cases.
6.3.3	When variable remuneration is awarded to a member of the executive board, the long-term component shall be taken into account as well as profitability and/or continuity. A material part of the variable remuneration shall be conditional and shall not be paid until at least three years have passed.	Members of the Management Board are not eligible for variable remuneration.
6.3.4	Shares granted to executives board members without financial consideration shall be retained for a period of at least five years or at least until the end of the employment, if this period is shorter. If options are granted, they shall, in any event, not be exercised in the first three years after the date on which they were awarded.	Members of the Management Board are not eligible for a share nor an option scheme.

Remuneration policy

Number	Insurance code	Application by SRLEV
Variable remuneration		
6.4.1	The allocation of variable remuneration shall be related to the insurer's long-term objectives.	Members of the Management Board are not eligible for variable remuneration.
6.4.2	Each insurer shall set a maximum ratio of variable remuneration to fixed salary that is appropriate for the insurer in question. The variable remuneration per annum of members of the executive board shall not exceed 100% of the member's fixed income.	Members of the Management Board are not eligible for variable remuneration.
6.4.3	Variable remuneration shall be based on the performances of the individual, his part of the business and the performance of the insurer as a whole according to pre-determined and assessable performance criteria. In addition to financial performance criteria, non-financial performance criteria shall also make up a significant portion of the assessment of the individual. Performance criteria shall be defined in terms that are as objective as possible in the insurer's remuneration policy.	Members of the Management Board are not eligible for variable remuneration.
6.4.4	When performances are assessed based on the pre-determined performance criteria, financial performances shall be adjusted to allow for estimated risks and capital costs.	Members of the Management Board are not eligible for variable remuneration.
6.4.5	In exceptional circumstances – for example, if application of the pre-determined performance criteria would result in undesired variable remuneration for a member of the executive board – the supervisory board shall have the discretionary power to adjust the variable remuneration if, in its opinion, this remuneration would have unfair or unintended effects.	The members of the Management Board are not eligible for variable remuneration.
6.4.6	The supervisory board shall be authorised to reclaim variable remuneration allocated to a member of the executive board based on inaccurate data (whether or not the inaccurate data is financial in nature).	Members of the Management Board are not eligible for variable remuneration.

Compliance with laws and regulations

Number	Insurance code	Application by SRLEV
	The insurer shall have a procedure in place that warrants the timely identification and implementation of new laws and regulations. The insurer shall evaluate this procedure every year. At least the following functions shall be involved in this procedure: the board, the internal supervisor, risk management, compliance, internal audit and the actuarial function.	SNS REAAL's Legal Affairs department warrants identification of changes in laws and regulations. Other Group staff departments of SNS REAAL too, warrant identification of new laws and regulations relating to the Insurance activities in their respective fields. Per topic, the Executive Board and business unit management teams will appoint an action holder who is responsible for timely and correct implementation. As part of the decentralisation of SNS REAAL's Group staff departments, this whole procedure will be set up anew. No annual evaluation was, therefore, conducted in 2013. Central monitoring of the status of the implementation of important topics will be part of the new procedure at the Insurance activities.

13.4 Management statements

The members of the Management Board state the following:

13.4.1 In-control statement

The Management Board of SRLEV NV hereby declares that it has ascertained, with a reasonable degree of assurance, that the material risks SRLEV NV is facing have been described. This assurance is based on the risk management organisation described in Chapter 17 on Risk Management and Organisation. The effectiveness of essential control measures is reviewed at regular intervals. SRLEV NV has established a structured process of internal In-control statements with corresponding evaluation by senior management. The following material risks have been identified for SRLEV NV as a whole:

- The business models of SRLEV NV require timely adjustments due to changing market conditions. Because of this and because of Solvency II requirements there is pressure on the capital position of the SRLEV NV.
- In 2013, the political and social attention for investment-based insurance products sold to vulnerable groups increased. SRLEV NV is acting proactively towards its customers by offering alternatives. SRLEV NV has a working Product Approval and Review Process to manage future product risks adequately.
- The execution of splitting SNS REAAL into independent banking and insurance operations also has consequences for the personnel. The implementation of the necessary changes will increase their workload. SNS REAAL has chosen to adopt a rapid and meticulous approach and will remain in close contact with its personnel throughout the process.

Notwithstanding the considerable increase in workload, SRLEV's management devoted attention to managing the various risks to which the company is exposed. The changing external environment, new laws and regulations (Solvency II), an increased number of inquiries from regulators and regulatory requirements, necessary investments in the data warehouse infrastructure and organizational changes within SRLEV, placed pressure on the available qualitative attention for the internal control framework. Specifically with respect to the linkage between internal control at group and business units level. The internal control framework currently consists of individual components for managing actual risks, whose overall effectiveness is then tested. In the new governance structure, the management team the insurer will give further substance to an integrated control framework.

13.4.2 Control over financial reporting

The financial reporting management and control systems are an integral part of SRLEV NV’s overall risk management and control systems. Key elements in respect of the control over its financial reporting are:

- The Financial Committee (SNS REAAL), which is responsible for setting policy frameworks as well as the organisation of financial and actuarial administrations and processes.
- The business units and staff departments that are responsible for the execution of tasks, and thus for an accurate and faithful recording of the transactions and the reporting thereon.
- A system of financial key controls within the financial accounting and reporting departments in order to monitor the proper operation of financial reporting management and control systems.
- The Financial Committee’s (SNS REAAL) assessment of the financial reporting, partly based on the results from the key controls. The findings of the financial reporting process, together with the financial reporting, are discussed in the Audit Committee after approval by the Executive Board,
- The review of the operating effectiveness of these systems by the internal and external auditors. The external auditor reports thereon insofar as it relates to the audit of the financial statements. The findings are discussed with the Financial Committee, the Executive Board of SNS REAAL and the Audit Committee.

We believe that the measures taken lead to an adequate control over the financial reporting process.

13.4.3 Transparency statement

The members of the Management Board state the following: “SRLEV NV prepares the consolidated and company financial statements 2013 of SRLEV NV in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union (EU) and with Title 9 Book 2 of the Dutch Civil Code and, to the best of our knowledge, they give a true and fair view of the assets, liabilities, size and composition of equity, financial position as per 31 December 2013 and the financial result of the Group and its consolidated companies. The annual report gives, to the best of our knowledge, a true and fair view of the position as per the balance sheet date and the development and performance of the business during the financial year. The principal risks SRLEV NV faces are described in the Annual Report.”

Alkmaar, 15 April 2014

Wim Henk Steenpoorte, Chairman
Dick Okhuijsen
Maurice Oostendorp

Financial statements

14 Consolidated financial statements

14.1 Consolidated balance sheet

Consolidated balance sheet

Before result appropriation and in € millions	*Notes**	2013	2012
Assets			
Intangible assets	1	-	579
Property and equipment	2	59	124
Investments in associates	3	-	40
Investment properties	4	268	233
Investments	5	31,077	32,475
Investments for account of policyholders	6	13,491	13,265
Derivatives	7	590	479
Deferred tax assets	8	661	964
Reinsurance contracts	14	3,863	3,021
Loans and advances to banks	9	362	452
Corporate income tax		38	101
Other assets	10	560	1,458
Cash and cash equivalents	11	1,020	1,541
Total assets		**51,989**	**54,732**
Equity and liabilities			
Share capital		-**	-**
Other reserves		3,103	3,138
Retained earnings		(416)	4
Shareholder equity	**12**	**2,687**	**3,142**
Minority interests	12	1	3
Total equity		**2,688**	**3,145**
Subordinated debt	13	652	677
Insurance contracts	14	39,727	40,447
Other provisions	15	14	15
Derivatives	7	123	81
Deferred tax liabilities	8	341	869
Liabilities related to collateral and receivables	16	4,880	4,061
Amounts due to banks	17	1,942	2,994
Corporate income tax		-	(1)
Other liabilities	18	1,622	2,444
Total equity and liabilities		**51,989**	**54,732**

** The references next to the balance sheet items relate to the notes to the consolidated balance sheet starting from section 22.1*

*** The issued and paid up share capital of SRLEV NV is € 45,000*

14.2 Consolidated income statement

Consolidated income statement

In € millions	Notes*	2013	2012
Income			
Premium income		2,395	2,624
Reinsurance premiums		164	156
Net premium income	22	**2,231**	**2,468**
Fee and commission income		64	68
Fee and commission expense		2	3
Net fee and commission income	23	**62**	**65**
Share in result of associates	24	1	10
Investment income	25	1,304	1,507
Investment income for account of policyholders	26	628	1,512
Result on financial instruments	27	60	12
Total income		**4,286**	**5,574**
Expenses			
Technical claims and benefits	28	2,559	2,501
Charges for account of policyholders	29	1,663	2,266
Acquisition costs for insurance operations	30	77	91
Staff costs	31	124	138
Depreciation and amortisation of fixed assets	1 , 2	11	21
Other operating expenses	32	151	134
Impairment charges	33	51	286
Other interest expenses	34	207	138
Other expenses		1	-
Total expenses		**4,844**	**5,575**
Result before tax		**(558)**	**(1)**
Taxation	35	(142)	(8)
Net result continued operations		**(416)**	**7**
Net result discontinued operations		-	-
Net result for the period		**(416)**	**7**
Attribution:			
Net result attributable to shareholder		(416)	4
Net result attributable to minority interests		-	3
Net result for the period		**(416)**	**7**

** The references next to the income statement items relate to the notes to the consolidated income statement starting from section 22.22*

14.3 Consolidated statement of comprehensive income

Other consolidated statement of comprehensive income

In € millions	2013	2012
Items that will not be reclassified subsequently to profit or loss		
Other changes in comprehensive income	(3)	27
Total items never reclassified to profit or loss	**(3)**	**27**
Items that may be reclassified subsequently to profit or loss		
Change in revaluation reserve	(2)	(1)
Change in cash flow hedge reserve	8	(12)
Change in fair value reserve	(44)	(827)
Total items that may be reclassified to profit or loss subsequently	**(38)**	**(840)**
Other comprehensive income (after tax)	**(41)**	**(813)**

Total comprehensive income

In € millions	2013	2012
Net result for the period	(416)	7
Other comprehensive income (after tax)	(41)	(813)
Total comprehensive income	**(457)**	**(806)**
Attribution:		
Total comprehensive income attributable to shareholder	(455)	(803)
Total comprehensive income to minority interests	(2)	(3)
Total comprehensive income	**(457)**	**(806)**

14.4 Consolidated statement of changes in equity

Consolidated statement of changes in total equity 2013

In € millions	Issued share capital*	Share premium reserve	Sum revaluation reserves	Sum other reserves	Equity attributable to shareholders	Minority interests	Group equity
Balance as at 1 January 2013	-	1,619	122	1,401	3,142	3	3,145
Unrealised revaluations from cash flow hedges	-	-	(13)	-	(13)	-	(13)
Unrealised revaluations	-	-	(901)	-	(901)	-	(901)
Impairments	-	-	12	-	12	-	12
Realised revaluations through profit or loss	-	-	(140)	-	(140)	-	(140)
Change in shadow accounting	-	-	1,004	-	1,004	-	1,004
Other movements	-	-	-	(1)	(1)	(2)	(3)
Amounts charged directly to total equity	**-**	**-**	**(38)**	**(1)**	**(39)**	**(2)**	**(41)**
Net result 2013	-	-	-	(416)	(416)	-	(416)
Total result 2013	**-**	**-**	**(38)**	**(417)**	**(455)**	**(2)**	**(457)**
Total changes in equity 2013	**-**	**-**	**(38)**	**(417)**	**(455)**	**(2)**	**(457)**
Balance as at 31 December 2013	**-**	**1,619**	**84**	**984**	**2,687**	**1**	**2,688**

** The share capital issued is fully paid and comprises of 90 ordinary shares with a nominal value of € 500.00 per share.*

Statement of revaluation reserves and other reserves 2013

In € millions	Revaluation property and equipment	Cash flow hedge reserve	Fair value reserve	Sum revaluation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2013	6	-	116	122	1,397	4	1,401
Transfer of net result 2012	-	-	-	-	4	(4)	-
Transfers 2012	**-**	**-**	**-**	**-**	**4**	**(4)**	**-**
Unrealised revaluations from cash flow hedges	-	(13)	-	(13)	-	-	-
Unrealised revaluations	(2)	-	(899)	(901)	-	-	-
Impairments	-	-	12	12	-	-	-
Realised revaluations through profit or loss	-	(9)	(131)	(140)	-	-	-
Change in shadow accounting	-	30	974	1,004	-	-	-
Other movements	-	-	-	-	(1)	-	(1)
Amounts charged directly to total equity	**(2)**	**8**	**(44)**	**(38)**	**(1)**	**-**	**(1)**
Net result 2013	-	-	-	-	-	(416)	(416)
Total result 2013	**(2)**	**8**	**(44)**	**(38)**	**(1)**	**(416)**	**(417)**
Total changes in equity 2013	**(2)**	**8**	**(44)**	**(38)**	**3**	**(420)**	**(417)**
Balance as at 31 December 2013	**4**	**8**	**72**	**84**	**1,400**	**(416)**	**984**

SRLEV declared not to distribute a dividend for the year 2013.

For more information on the statement of changes in equity please refer to the statement of changes in equity in section 15.5.10 Equity of the accounting principles for the consolidated financial statements. For more information on the capitalisation of SRLEV please refer to Chapter 21 Capital management.

Consolidated statement of changes in total equity 2012

In € millions	Issued share capital	Share premium reserve	Sum revaluation reserves	Sum other reserves	Equity attributable to shareholders	Securities capital	Minority interests	Group equity
Balance as at 1 January 2012	-	1,564	1,026	1,695	4,285	55	2	4,342
Changes in principles deferred acquisition cost	-	-	-	(328)	(328)	-	-	(328)
Adjusted balance as at 1 January 2012	**-**	**1,564**	**1,026**	**1,367**	**3,957**	**55**	**2**	**4,014**
Unrealised revaluations from cash flow hedges	-	-	(6)	-	(6)	-	-	(6)
Unrealised revaluations	-	-	983	-	983	-	-	983
Impairments	-	-	24	-	24	-	-	24
Realised revaluations through profit or loss	-	-	(243)	-	(243)	-	-	(243)
Change in shadow accounting	-	-	(1,662)	-	(1,662)	-	-	(1,662)
Other movements	-	-	-	30	30	(55)	(3)	(28)
Amounts charged directly to total equity	**-**	**-**	**(904)**	**30**	**(874)**	**(55)**	**(3)**	**(932)**
Net result 2012	-	-	-	4	4	-	4	8
Total result 2012	**-**	**-**	**(904)**	**34**	**(870)**	**(55)**	**1**	**(924)**
Capital issue	-	55	-	-	55	-	-	55
Transactions with shareholders and security holders	**-**	**55**	**-**	**-**	**55**	**-**	**-**	**55**
Total changes in equity 2012	**-**	**55**	**(904)**	**34**	**(815)**	**(55)**	**1**	**(869)**
Balance as at 31 December 2012	**-**	**1,619**	**122**	**1,401**	**3,142**	**-**	**3**	**3,145**

Statement of revaluation reserves and other reserves 2012

In € millions	Revaluation reserve	Cash flow hedge reserve	Fair value reserve	Sum revaluation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2012	7	76	943	1,026	1,488	207	1,695
Changes in principles deferred acquisition cost	-	-	-	-	(357)	29	(328)
Adjusted balance as at 1 January 2012	**7**	**76**	**943**	**1,026**	**1,131**	**236**	**1,367**
Transfer of net result 2011	-	-	-	-	236	(236)	-
Transfers 2011	**-**	**-**	**-**	**-**	**236**	**(236)**	**-**
Unrealised revaluations from cash flow hedges	-	(6)	-	(6)	-	-	-
Unrealised revaluations	-	-	983	983	-	-	-
Impairments	(1)	-	25	24	-	-	-
Realised revaluations through profit or loss	-	(6)	(237)	(243)	-	-	-
Change in shadow accounting	-	(64)	(1,598)	(1,662)	-	-	-
Other movements	-	-	-	-	30	-	30
Amounts charged directly to total equity	**(1)**	**(76)**	**(827)**	**(904)**	**30**	**-**	**30**
Net result 2012	-	-	-	-	-	4	4
Total result 2012	**(1)**	**(76)**	**(827)**	**(904)**	**30**	**4**	**34**
Total changes in equity 2012	**(1)**	**(76)**	**(827)**	**(904)**	**266**	**(232)**	**34**
Balance as at 31 December 2012	**6**	**-**	**116**	**122**	**1,397**	**4**	**1,401**

14.5 Consolidated cash flow statement

Consolidated cash flow statement

In € millions	2013	2012
Cash flow from operating activities		
Operating profit before taxation	(558)	(1)
Adjustments for:		
Depreciation and amortisation of fixed assets	42	78
Changes in technical provisions own risk	(1,398)	2,627
Changes in other provisions	(226)	(590)
Impairment charges / (reversals)	51	286
Unrealised results on investments through profit or loss	(373)	7
Retained share in the result of associates	-	(8)
Change in operating assets and liabilities:		
Change in Liabilities related to collateral and receivables	819	64
Change in advances and liabilities to banks	(962)	510
Change in other operating activities	1,438	(2,977)
Net cash flow from operating activities	**(1,167)**	**(4)**
Cash flow from investment activities		
Sale of subsidiaries	15	-
Sale of investment property	11	5
Sale and redemption of investments and derivatives	8,518	15,490
Purchase of intangible fixed assets	-	(7)
Purchase of property and equipment	-	(9)
Purchase of investment property	-	(2)
Purchase of investments and derivatives	(7,896)	(14,962)
Net cash flow from investment activities	**648**	**515**
Cash flow from finance activities		
Issue of shares and share premium	-	55
Repurchase of securities	-	(55)
Redemption of subordinated loans	(2)	21
Redemption of debt certificates	-	(120)
Net cash flow from financing activities	**(2)**	**(99)**
Cash and cash equivalents 1 January	1,541	1,129
Change in cash and cash equivalents	(521)	412
Cash and cash equivalents as at 31 December	**1,020**	**1,541**
Additional disclosure with regard to cash flows from operating activities		
Interest income received	1,203	1,230
Dividends received	173	137
Interest paid	170	156

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in section 15.3.4 Changes in principles and estimates.

15 Accounting principles for the consolidated financial statements

15.1 General information

SRLEV NV, (SRLEV) incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. SRLEV's registered office is located at Wognumsebuurt 10, 1817 BH Alkmaar. The consolidated financial statements of SRLEV comprise the accounts of all the companies controlled by SRLEV and the interest of SRLEV in associated companies and entities.

SRLEV NV is a 100% subsidiary of REAAL NV. SNS REAAL NV is the sole shareholder of REAAL NV. Stichting Beheer SNS REAAL had a 50.00001% interest in SNS REAAL till 1 February 2013. The shares were listed at the NYSE Euronext Amsterdam as part of the Amsterdam Midkap index. As of 1 February 2013, the Dutch State is the sole shareholder of SNS REAAL NV. Subsequently, the Dutch State transferred the shares to Stichting administratiekantoor beheer financiële instellingen (NLFI) on 31 December 2013.

The main accounting principles used in the preparation of the consolidated financial statements and the company financial statements are set out in this section.

15.2 Adoption of the financial statements

The consolidated financial statements of SRLEV NV for the year ended on 31 December 2013 were authorised for publication by the Executive Board following their approval by the Supervisory Board on 15 April 2014. The financial statements will be submitted to the General Meeting of Shareholders for adoption in April 2014.

15.3 Basis of preparation

15.3.1 Statement of IFRS compliance

SRLEV prepares the annual accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, SRLEV prepares its company financial statements (see also section 23.3 Principles for the preparation of the company financial statements for the application of section 2:402 of the Netherlands Civil Code) in accordance with the same accounting principles as those used for the consolidated financial statements.

15.3.2 Changes in published Standards and Interpretations effective in 2013

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2013, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee respectively, became mandatory, and are adopted by the EU. Unless stated otherwise, the changes will have no material effect on the consolidated financial statements of SRLEV.

- Amendment to IFRS 1 First time adoption –Government Loans.
- Amendment to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.
- IFRS 13 Fair Value Measurement.
- Amendment to IAS 1 Presentation of Financial Statements - Presentation of Items of Other comprehensive Income.
- Amendment to IAS 19 Employee Benefits – Post Employment Benefits.
- Improvements to IFRSs' 2011.

Notes to the main changes:

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

Taking effect in the current financial year, this standard requires a disclosure on the possibility of offsetting financial instruments. This disclosure requires a breakdown of instruments which are offset in the balance sheet and a disclosure of instruments which are not being offset, but in which the company has the right to offset under specified conditions. For SRLEV this mainly concerns derivatives and repos. The disclosure is included in tabular form in Chapter 23 of the financial statements. The changed standard only concerns the disclosures and does not influence shareholders' equity or the income statement.

IFRS 13 Fair Value Measurement

The goal of IFRS 13 is to provide a more consistent and simple application of fair value. Taking effect in the current financial year, IFRS 13 is applicable to measurement and disclosure requirements with respect to fair value, irrespective of which asset or liability it concerns. The standard includes a changed definition of fair values as well as additional disclosure requirements. The standard has no impact on which assets and liabilities have to or may be valued at fair value. The modified definition led to the inclusion in fair value of the credit risk of counterparties as well as the 'own' credit risk in the valuation of derivatives. For the financial year 2013 this did not cause any significant changes to the measurement of fair value of derivatives, as a result of the wide use of collateral agreements and the high creditworthiness of many of the counterparties of these instruments. For the other items in financial statements the new definition of fair value does not significantly deviate from the definition of fair value used by SRLEV in the past and therefore does not have any significant impact on shareholders' equity or the income statement. The additional disclosures mainly concern non-financial assets which are measured at fair value in the balance sheet and financial assets and liabilities of which the fair value is disclosed. This is included in Chapter 24 of the financial statements.

IAS 19 Employee Benefits

SRLEV staff is contractually employed by SNS REAAL and SRLEV is charged for its share in current year's staff expenses, including employee benefits. The effect of the change is limited, since the SRLEV staff pension entitlements are, to the largest extent, part of a defined contribution plan of SNS REAAL (Pension Fund SNS REAAL). The main changes for SNS REAAL's defined benefit pension plans, having almost only so-called dormant participants and retired members are:

- the corridor method will be eliminated. Actuarial results, which are the result of expected outcomes, the discount rate and actual realisation, will be recognised directly in shareholders' equity (Other Comprehensive Income) and can no longer be deferred via the corridor method; and
- future administrative costs will no longer be included in IAS 19 Employee Benefits. From now on, the annual administrative costs will be recognised directly as pension costs in the result. The return on qualifying pension investments will be determined in a different way from now on. As from 2013, this return will be equated with the interest rate by which the employee benefits are increased. Up to and including 2012, an estimated return on these investments was recognised.

The elimination of the corridor will take place at the level of SNS REAAL and will not affect SRLEV's equity. The changed recognition of administration cost and return on qualifying investments will have a limited effect on the expenses charged to SRLEV.

15.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2013

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2014 and effective for accounting periods beginning on or after 1 January 2014, were not early adopted by SRLEV.

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 27 Separate Financial Statements. (revised 2011)
- IAS 28 Investments in Associates and Joint Ventures. (revised 2011)
- Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'

- Amendment to IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets
- Improvements to IFRSs 2012
- Improvements to IFRSs 2013
- IFRIC 21 Levies

Notes to the main changes:

IFRS 9 Financial Instruments, the first adoption date has been postponed by IASB and will not be before 1 January 2017. This new standard is subdivided into three phases. The phases Classification and Measurement and Hedge Accounting have already been published. The phase Classification and Measurement is still subject to changes based on additionally proposed changes. The phase Impairments will probably be published in 2014. The new standard will lead to a complete revision of IAS 39 Financial Instruments. The new standard has not yet been adopted by the EU. It is expected are that the standard will affect the classification and measurement of financial assets and liabilities. Its full impact will not become clear until this IASB project has been completed in full, and published.

IFRS 10 'Consolidated Financial Statements', IFRS '11 joint arrangements', IFRS 12 'Disclosures of Interests in Other Entities', IAS 27 'Separate Financial Statements', IAS 28 'Investments in Associates and Joint Ventures'
These IFRS standards have been approved by the EU and will replace the IFRS standards 'IAS 27 Consolidated and Separate Financial Statements' with regards to consolidation rules and 'IAS 31 Joint Ventures' as of the reporting year 2014. Meanwhile, IAS 28 is changed from 'Investments in Associates' into Investment in 'Associates and Joint Ventures' and in combination with these changes IFRS 12 'Disclosure of Interest in Other Entities' will be in force.

IFRS 10 redefines the notion of 'dominant control' because of the diverging interpretation and application of this notion under IAS 27 and the interpretation under SIC12 'Consolidation – Special Purpose Entities'.

IFRS 11 determines when and in what way joint arrangements with third parties have to be included in the consolidation of the group. IFRS 11 is, contrary to former IAS 31, applicable to all joint arrangements. Under IFRS 11 only the structure of the joint arrangement determines how this is accounted for in the reporting. IFRS 11 differentiates 'joint operations' and 'joint ventures'. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement Joint operations are consolidated proportionately and joint ventures according to the equity method, which is equal to minority interests under IAS 28.

IFRS 12 requires clear disclosure of the nature of an interest, the considerations of how to classify the interest and any possible restrictions in the exercise of the dominant control or access to the assets.

IAS 27 'Separate Financial Statements' is limited to the separate financial statements because the regulations for consolidation are included in IFRS 10.

IAS 28 is amended so that the equity method is applicable on minority interests as well as joint ventures.

Expectations are that the consolidation of SRLEV as a result of getting into force of the amendments in these IFRS standards will change. We expect no significant influence on the balance sheet and income statement. If required, the disclosures will be adjusted.

15.3.4 Changes in principles and estimates

15.3.4.1 *Changes in accounting principles*

In 2013 the EU adopted revisions to IAS 19 entered into force. The nature and effect of the revisions are described in section 15.3.2 'Changes in published Standards and Interpretations effective in 2013' - IAS 19 Employee Benefits - Amendment to IAS 19 Employee Benefits – Post Employment Benefits.

15.3.4.2 *Changes in estimates*

For the valuation of certain derivatives with collateral, in 2013 a more relevant interest rate curve is used. The interest rate curves which are used are Overnight Index Swap (OIS) curves instead of other reference rates, like Euribor or LIBOR. This change is in line with the recent developments in the financial sector related to the valuation of such instruments. The change of the applied curves did not cause any significant changes to the fair values of derivatives compared to the methodology which was used in the past by SRLEV. The influence on equity and the result is therefore limited.

15.3.5 Accounting principles used in the preparation of the financial statements

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. All group entities have applied the accounting principles consistently.

15.3.5.1 *Accounting principles applied to balance sheet items*

In preparing the financial statements, the accounting principles 'fair value', 'amortised cost' and 'historic cost' are used.

Fair value is used for:

- land and buildings in own use;
- investment property;
- part of the loans and advances to customers;
- investments classified at fair value through profit or loss;
- investments classified as available for sale;
- derivatives;
- investments and liabilities on behalf of policyholders.

All other financial assets (including loans and advances) and liabilities are measured at amortised cost. The book value of assets and liabilities measured at amortised cost that is part of a fair value hedge-accounting relationship is restated to reflect the change in fair value that is attributable to the hedged risk.

Non-financial assets and liabilities are generally measured at historical cost. Except for the cash flow information, the financial statements have been prepared on an accrual basis.

15.3.5.2 *Functional currency and reporting currency*

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional currency of SRLEV. All financial data presented in euro's are rounded off to the nearest million unless stated otherwise. Counting are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

Upon initial recognition, transactions in foreign currencies are converted into euros at the official exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currency are recorded in the income statement under 'investment income' or 'result on financial instruments', depending on the balance sheet item to which they relate.

The exchange rate differences of non-monetary balance sheet items measured at fair value, with changes in the fair value being taken to the income statement, are accounted for as part of these changes in the value of the asset in question. Exchange rate differences of non-monetary balance sheet items measured at fair value, with changes in the fair value being taken to shareholders' equity, are incorporated in shareholders' equity. Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

15.3.6 Main accounting principles, estimates and assumptions

15.3.6.1 *Use of estimates and assumptions in the preparation of the financial statements*

The preparation of the consolidated financial statements requires SRLEV to make estimates and assumptions based on complex and subjective opinions and estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. Hereby, management judges situations on the basis of available information and financial data which could potentially alter in the future. Although the estimates are made to the best of the management's knowledge, actual results may differ from these estimates and the use of other propositions or data can lead to materially different results.

Estimates and underlying assumptions are reviewed on a regular basis. The resulting impact to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting principles involving the use of estimates concern the methods for determining liabilities arising from insurance contracts, determining the provisions for bad debts, determining the fair value of assets and liabilities and determining impairments.

For detailed information and disclosure of the accounting estimates and assumptions we refer to the next sections and the notes to the financial statements items.

15.3.6.2 *Insurance contracts*

Liabilities arising from insurance contracts are measured at historical cost. On the balance sheet date, liabilities for life insurance will be determined based on a rate basis, and if applicable a premium for longevity and interest guarantees (on life insurance, of which the investment risk is borne by the insurance policyholder) and the possible effects of shadow accounting. The liabilities arising from damage insurance contracts are determined based on historically observed damage run-off. For disability insurances a combination of both methods is used.

IFRS requires, for measurements based on historical cost, a liability adequacy test in which the value of the insurance liability is based on historical cost, netted with the related Value of Business Acquired (VOBA); it is compared with the value of the insurance liability under fair value. When this value is higher, there is a shortfall. Under IFRS 4, the book value of the insurance liability has to be supplemented by this shortfall (as described under 'IFRS liability adequacy test on Insurance liabilities - Recognition of a shortfall in the IFRS liability adequacy test'), so that the insurance liability is measured at fair value assumptions.

Liabilities arising from life insurance contracts on a rate basis are determined on the basis of a sufficiently conservative prospective actuarial method taking into account all future benefit payments and premiums to be received, if applicable. The calculation deviates from using a prospective method if the nature of the relevant type of life insurance does not allow the application of this method.

Actual payments and the timing of payments also depend on factors such as social, economic and demographic trends, inflation, investment returns, the behaviour of policyholders and other factors, and, for life insurance contracts, assumptions about developments in mortality and disability rates. Lapse, like early surrender or a waiver of premium, is also taken into account for some risk products. The assumptions used in the valuation of life insurance policies at the balance sheet date are based on the calculation principles set at the time of the issue of the policy. Using different assumptions for these factors than have been used in preparing these accounts could have a significant effect on the liabilities arising from insurance contracts and insurance related expenses.

Most policies have a fixed discount rate, which is 3% for insurance contracts issued after 1999 and a maximum of 4% for insurance contracts prior to this time. For offset mortgages and other guaranteed products, the rate of return guaranteed in the insurance contract is used. The actuarial interest for these products equals the investment return achieved on the corresponding investments.

IFRS liability adequacy test on insurance liabilities

The life insurance liabilities reported at the balance sheet date are valued using premium calculation principles for interest and mortality (life insurance contracts). The adequacy of the provision is tested periodically during and at the end of the reporting period by means of the IFRS liability adequacy test.

The test

Under IFRS, the book value of the insurance liability, after deduction of the related VOBA, should be at least equal to the fair value of the insurance liability. Therefore the IFRS liability adequacy test is carried out periodically during and at the end of the financial year, for life insurance and non-life insurance, separately tested whether the book value based on historical cost, supplemented with the effects of shadow accounting (refer to section 15.5.12.6 Shadow accounting and below 'Shadow loss') and any provisions for interest guarantees on life insurances, in which the investment risk is borne by the insurance policyholder, shows a shortfall in comparison with fair value measurement.

In interest rate guarantees in collective contracts where the investment risk for the account and risk of policyholders comes with a number of employers it is agreed that deficits in relation to the guaranteed interest rate are (partially) borne by the employer. In connection with this replenishment of the employer amounts received or to be received shall be deducted from the deficit of the liability adequacy test.

Recognition of a test shortfall

If the outcome of the test is a shortfall, the book value will be supplemented, charged through shareholders' equity, insofar as there are assignable positive revaluations in the revaluation reserve and cash flow hedge reserve (explained in the section 'Shadow loss' below). Should there still be a shortfall remaining, the VOBA will first be impaired for the amount of the shortfall and accounted for as part of technical claims and benefits. Finally, the still remaining shortfall will also, through technical claims and benefits, be added to the liabilities arising from insurance contracts. In case of a decrease of the shortfall in the next reporting period, this addition will be reversed from the insurance liabilities through profit and loss (through technical claims and benefits). Charges through the VOBA are definitive and will therefore not be taken back in a next reporting period.

Methodology IFRS liability adequacy test on life insurance liabilities

The IFRS liability adequacy test is performed on the book value of the liabilities arising from life insurance contracts based on historical cost, including the effects of shadow accounting and possible provisions for interest rate guarantees, less the Value of Business Acquired (VOBA). It is tested whether these book values are ultimately adequate, based on actual assumptions, to meet the commitments to the policyholders. When performing this test, best estimate future contractual cash flows are projected, taking into account current and future developments of mortality, disability, the behaviour of policyholders, claims handling and management costs. Valuation of the future expected profit sharing and the time value of embedded options and guarantees is included in these cash flows. The estimate is increased by a risk margin, which is calculated using the Cost of Capital method. Finally the cash flows are discounted against the ECB AAA curve with UFR, as published by DNB. If the thus calculated provision turns out to be higher than the book value of the insurance liabilities presented in the balance sheet increased with differences in the valuation of investments (to the extent that they are not recognised at fair value), a shortfall exists.

Shadow loss

Insofar the shortfall of the insurance liability in the IFRS test is related to an increase in the provision as a result of an interest rate decrease, the necessary addition to book value of the liability, through shadow loss accounting, is charged to the fair value reserve and cash flow reserve. The fair value reserve is only charged; insofar it is related to the fixed income investments related to the technical insurance liabilities. A shortfall resulting from other technical assumptions is not recognised through a shadow loss. A positive outcome of the test in a successive reporting period results in a credit to the fair value reserve or a cash flow hedge reserve of a shadow loss amount previously recognised in the insurance liability, in the amount of the surplus. The fair value reserve or cash flow hedge reserve cannot be negative. Refer to section 15.5.12.6 for more information on the effects of shadow (loss) accounting.

Test level and frequency
This IFRS liability adequacy test is performed at least once per quarter on the liabilities of the entire portfolio of life insurance contracts.

Assumptions used
The following current assumptions were used in performing the IFRS liability adequacy test as at 31 December 2013:

- discount rate: ECB (European Central Bank) AAA government curve including the UFR (the Dutch Central Bank curve);
- profit allocation in accordance with applicable profit sharing arrangements;
- cost allocation and distribution of efficiency advantages based on internal assessment;
- projected mortality probability data for the entire population (CBS statistics Netherlands data until 2012) adjusted for experience in the company’s portfolio based on internal research;
- lapse and early surrender data based on internal research;
- inflation derived from market data;
- salary increases in collective labour agreements in accordance with the inflation assumption;
- cost of capital of 4%.

Mortality probabilities
The mortality rates used in the projection of the liabilities is the probability according to the population mortality rate multiplied by a portfolio factor.

To determine the mortality probability for the entire population the AG 2012 model from the Dutch Actuarial Society is used, which is calibrated by SRLEV with the CBS mortality observations up to and until 2012.

The portfolio factor measures the difference between population mortality and mortality in the insurance portfolio. Within the framework set by SRLEV, this factor is individually determined for each business unit and is also dependent on product characteristics, gender, and elapsed time / age. This portfolio factor is revised annually based on internal research and the mortality quotient of the latest CBS observations.

15.3.6.3 Provision for bad debts
As far as loans and receivables, as part of investments, with or without mortgage collateral are concerned, a provision for impairment is made if there are objective indications that SRLEV will not be able to collect all the amounts in accordance with the original contract. If these loans and receivables are individually significant, the provision made equals the difference between the book value and the recoverable value. The recoverable value equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans and advances.

The criteria for impairment are applied to the entire loan portfolio. Homogenous groups of loans and advances with smaller amounts per individual loan or advance (and corresponding credit risk), such as mortgages are tested collectively for impairment.

The provision for impairment also covers losses where there are objective indications of losses likely to be incurred in the loan portfolio (IBNR: 'incurred but not reported'). Losses on mortgages are estimated on the basis of historical loss patterns of loans and advances that carry similar risk characteristics as the loans and advances held in the portfolio. Losses on other loans and advances are estimated on the basis of historic loss patterns and the creditworthiness of the borrowers. Both estimates take into account the current economic climate in which the borrowers operate.

If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the previously recognised impairment loss is reversed in the income statement. When a loan is uncollectable, it is written off against the relevant provision for impairment. Amounts that are subsequently collected are deducted from the addition to the provision for impairment in the income statement.

15.3.6.4 Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is determined on the basis of quoted list prices where available. Such quoted list prices are primarily derived from transaction prices for listed instruments. If transaction prices are not available, market prices from independent market participants or other experts are used. SRLEV applies a transfer price when determining fair value; therefore financial assets are initially recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain investment. Selecting the most appropriate price requires judgement; available market information on fair value of the instrument is taken into account.

For certain financial assets and liabilities, no market price is available. The fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methodologies. Input into the models is as far as possible based on observable market information. All valuation methods used are assessed and approved in-house according to SRLEV governance procedures.

15.3.6.5 Impairment charges of intangible assets and financial instruments

Intangible fixed assets

An asset is subject to impairment if its book value exceeds the realisable value from continued use (value in use) or sale of the asset. The realisable value of assets not classified at fair value through profit or loss is estimated if there are indications of impairment of the asset. Goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Goodwill

Goodwill created with the acquisition of subsidiaries, associated companies and joint ventures is allocated to cash-generating units. The book value of the cash-generating unit (CGU) (including goodwill) is compared to the calculated recoverable value, determined on the basis of value in use. If the recoverable value is lower than the book value, the difference will be recognised as impairment in the income statement. Assumptions used in these goodwill impairment tests:

- the value in use is determined for CGU individually;
- the value in use is based on the business plans of the CGU concerned; and
- the discount rate is determined on the capital asset pricing model, in which the beta is calculated on the basis of a group of comparable companies. This reference group is determined individually per CGU.

Value of Business Acquired (VOBA)

The VOBA is tested simultaneously using the IFRS liability adequacy test for insurance contracts (as described in the sections ’the test‘ and ’recognition of a shortfall’). Shortfalls from the liability adequacy test will at first be definitively charged through VOBA, until this is completely impaired. Any remaining shortfalls will be charged through profit and loss. VOBA impairments will not be taken back in the reporting periods thereafter in case of a decrease of the test shortfall.

Software and other intangible assets

On each reporting date, the capitalised costs for software, distribution channels and client portfolios are reviewed for indications of possible impairments.

Brand names are tested for impairment once every year. The recoverable value is determined by a value in use calculation. The key assumptions used herein are the discount rate and the royalty rate.

Reversal of impairments losses on intangible assets
Except for goodwill and VOBA, impairment losses on intangible assets are reversed if there is proof that a change in the estimates of the realisable value occurred after the impairment loss was recognised. The reversal is included under ‘impairment charges’ in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Financial assets

Each reporting date, SRLEV assesses whether there are objective indications of impairment of investments classified as loans and receivables and as available for sale. Impairment losses are recognised directly in the income statement under ‘impairment charges’. With investments available for sale, any positive revaluation reserve of shareholders’ equity is first deducted.

Investments in debt securities
Investments in debt securities measured at amortised cost or available for sale are tested for impairment if there are objective indications of financial difficulties at the counterparty, declining markets for the product of the counterparty or other indications. This test comprises both quantitative and qualitative considerations. Debt securities are assessed on aspects including expected credit losses and credit losses already incurred (for example due to default), market data on credit losses and other evidence of the issuer of the instrument’s inability to meet its payment commitments.

Investments in equity instruments
An investment in equity instruments (an investment in shares) is considered to have been subject to impairment if its book value exceeds the recoverable value for an extended period, which means that the fair value:

- decreased 25% or more below cost; or
- has been below cost for nine months or more.

The fair value of investments in the form of unlisted shares is determined according to the following criteria, depending on the availability of data:

- the price of the most recent transaction as an indication;
- current fair values of other, similar investments (in entities); and
- using valuation methods that use market data as much as possible, and in accordance with accepted economic methods.

Reversal of impairments on debt securities and equity
If the amount of the impairment decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised, the previously recorded impairment loss is reversed in the income statement. This does not apply to investments in shares, where an increase in value is always recognised through shareholders’ equity.

15.4 Accounting principles used for consolidation

15.4.1 Subsidiaries

Subsidiaries, i.e. all companies and other entities (including special purpose entities) in respect of which SRLEV has the power to determine the financial and operating policies, whether directly or indirectly, are consolidated. This is the case if more than half of the voting rights may be exercised, or if SRLEV has control in any other manner.

Subsidiaries are fully consolidated from the date on which control is transferred to SRLEV. They are de-consolidated from the date control ceases. The financial statements of these group companies are fully consolidated, with SRLEV accounting principles being applied. The interests of third parties are separately included in the consolidated balance sheet and income statement.

15.4.2 Associated companies and joint ventures

Investments in associated companies (associates) are entities in which SRLEV generally has between 20% and 50% of the voting power, or over which SRLEV can exercise significant influence on the operational and financial policies, but in which it has no control.

Joint ventures are entities over which SRLEV has joint control, which control is laid down in an agreement, and strategic decisions on the financial and operational policies are taken unanimously.

The consolidated financial statements include SRLEV's share in the total results of associates and joint ventures, from the date that SRLEV acquires significant influence to the date that significant influence ceases. The result is accounted for using the equity method, after adjusting the result to comply with SRLEV's accounting principles, if needed.

Upon recognition, associates and joint ventures are initially accounted for at the cost price (including the transaction costs) and subsequently according to the equity method. The item also includes goodwill paid upon acquisition less accumulated impairment losses, where applicable.

Under the equity method, the share of SRLEV in the result of associates and joint ventures is recognised in the income statement under 'share in the result of associates'. The share of SRLEV in changes in the reserves of associates or joint ventures is recognised directly in shareholders' equity (change in share of associates in other comprehensive income). If the book value of the associate falls to zero, no further losses are accounted for, unless SRLEV has entered into commitments, made payments on its behalf or acts as a guarantor.

Associates and joint ventures held for sale are classified as 'held for sale'. These associates and joint ventures are measured at the lower of the book value or the sales price less sales costs. The result on the sale of an investment in an associate or joint venture is presented in the income statement as a total amount, consisting of the sales price less the transaction costs and the book value of the associate.

15.4.3 Intercompany eliminations

Intra-group transactions, intra-group balances and unrealised gains arising from intra-group transactions were eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between SRLEV and its associates and joint ventures are eliminated to the extent of SRLEV's interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

15.4.4 Accounting based on transaction date and settlement date

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, in other words, the date on which SRLEV commits itself to buy or sell the asset or liability. All other purchases or sales are recorded as forward transactions until they are settled.

15.4.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle the items on a net basis, or to settle the asset and the liability simultaneously. If these conditions are not met, amounts will not be offset.

15.4.6 Discontinued operations or assets held for sale

Assets and liabilities that are part of discontinued operations and assets held for sale, of which it is highly probable that, on balance sheet date, the discontinuation or sale is within twelve months, are recognised at the lower of the book value and fair value less expected sales costs.

15.4.7 Information by segment

The financial statements of SRLEV do not disclose business units. The business units to which parts of SRLEV belong, are defined, managed and controlled at SNS REAAL level, as a result of which any presentation of business units in SRLEV NV would lead to less transparent information for users of the financial statements. For information on business unit level we refer to the financial statements of SNS REAAL 2013.

15.4.8 Insurance contracts

In this balance sheet item, liabilities arising from insurance contracts are recorded. Insurance contracts are contracts that bear significant insurance risks. These contracts can also involve investment risks. SRLEV has insurance contracts for Life. For detailed information reference is made to section 15.4.8 (Insurance contracts) and Chapter 24 (Notes to the company financial statements).

15.5 Specific balance sheet principles

15.5.1 Intangible fixed assets

15.5.1.1 *Goodwill*

Acquisitions are accounted for according to the purchase method, with the cost of the acquisitions being allocated to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, being the difference between the cost of the acquisition and SRLEV's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities on the acquisition date, is capitalised as an intangible asset. Any negative goodwill is recognised directly in the income statement.

Any change, in the fair value of acquired assets and liabilities at the acquisition date, determined within one year after acquisition, is recognised as an adjustment charged to goodwill in case of a preliminary valuation. Adjustments that occur after a period of one year are recognised in the income statement. Adjustments to the purchase price that are contingent on future events and insofar these are not already included in the purchase price, are included in the acquisition price at the time the adjustment is likely and can be measured reliably.

Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if there are indications of impairment (see section 15.3.6.5 Impairment charges of intangible assets and financial instruments).

15.5.1.2 Software

Costs that are directly related to the development of identifiable software products that SRLEV controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible assets. The direct costs comprise external costs and staff costs directly attributable to software development. All the other costs associated with the development or maintenance of software are included as an expense in the period during which they are incurred.

The capitalised development costs for software are amortised on a straight-line basis over the useful life, with a maximum of five years. Every reporting date an assessment is carried out for possible impairments.

15.5.1.3 Value of Business Acquired (VOBA)

Value of Business Acquired (VOBA) is the net present value of estimated future cash flows from current insurance contracts of a business or insurance portfolio acquired as at the acquisition date and represents the difference between the fair value and the book value on SRLEV principles of the insurance portfolios acquired.

SRLEV amortises the VOBA on the basis of the established release pattern of the value of the actuarial calculated surplus value at the date of purchase of the book value of the underlying portfolios at the acquisition date. The amortisation charge is thus in line with the release of this surplus value from the book value of the underlying portfolios.

At each balance sheet date, an IFRS liability adequacy test is performed on the book value of insurance contracts, after deduction of the capitalised VOBA. For a more detailed explanation on this please refer to section 15.3.6.2 Insurance contracts and 15.3.6.5 Impairment charges of intangible assets and investments in financial instruments.

15.5.1.4 Other intangible assets

The other intangible assets include assets with a definite and an indefinite useful life, such as distribution channels, trademarks, client portfolios. The assets with a definite useful life are either amortised in accordance with the straight-line method over their useful life or on the basis of the profit flows from the underlying portfolios, in general between five and fifteen years. If objective indications so require, an impairment test will be performed. The assets with an indefinite useful life are not amortised. These intangible fixed assets are assessed for impairment at each balance sheet date.

15.5.2 Property and equipment

15.5.2.1 Land and buildings in own use

Property in own use mainly comprises offices (land and buildings) and is measured at fair value (revaluation model) based yearly valuations, performed by external, independent valuators with sufficient profession expertise and experience in the specific location and categories of properties.

Property in own use is valued at fair value on an unlet or (partially) let basis, depending on the situation. The purpose of a valuation is to determine the value for which the asset would be transferred between willing parties in a transaction at arm’s length. The capitalisation method is used to determine this value. This method uses an expected starting result and the market rental value to determine the fair value of an asset. The determination of the result on property in own use is also dependent on lease incentives, discount rates and expected vacancy, but also location, quality, age and liquidity of the concerning property.

Increase in the fair value exceeding the cost price is added to the revaluation reserve in shareholders’ equity, less deferred taxes. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. The revaluation reserve cannot be negative. All other decreases in the fair value are accounted for in the income statement.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are carried out on land and buildings.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expenses incur. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of land and buildings in own use in relation to their original use, are capitalised and then amortised.

Upon the sale of a property, the part of the revaluation reserve related to the sold property, within equity, is transferred to 'other reserves'.

15.5.2.2 IT equipment and other property and equipment

All other property and equipment included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the assets and is depreciated on a straight-line basis over the useful life, taking into account any residual value. The estimated useful life can vary from three to ten years.

Regular impairment tests are performed on the other property and equipment. If the book value of the tangible asset exceeds the realisable value, it is written down to the realisable value.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expenses incur. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other tangible fixed assets in relation to their original use are capitalised and then amortised.

Results on the sale of property and equipment are defined as the balance of the realisable value less transaction costs and the book value. These results are recognised as part of 'other operating income'.

15.5.3 Investment properties

Investment properties, comprising retail and office properties, houses and land, are held to generate long-term rental income or capital appreciation or both. If property is held partly as investment property and partly for own use, the property is included under property and equipment, unless the part in own use is less than 20% of the total number of square metres.

Investment properties are measured at fair value, including the transaction costs, upon initial recognition. Investment properties are treated as long-term investments and measured at fair value, being the value of the property in a (partial) let state. The fair value is based on the appraisals performed every year by independent external appraisers with sufficient expertise and experience in property locations and categories

The purpose of a valuation is to determine the value for which the asset would be transferred between willing parties in a transaction at arm's length. The capitalisation method is used to determine this value. This method uses an expected starting result and the market rental value to determine the fair value of an asset. The determination of the result on property in own use is also dependent on lease incentives, discount rates and expected vacancy, but also location, quality, age and liquidity of the concerning property.

15.5.4 Financial assets

SRLEV classifies its financial instruments in one of the following categories: (1) loans and receivables, (2) available for sale and (3) at fair value through profit or loss. The category depends on the purpose for which the financial assets are acquired. Management decides in which category they will be placed.

Upon initial recognition, financial instruments are measured at fair value including transaction costs, with the exception of the category ‘at fair value through profit or loss’, where transaction costs are taken directly to the income statement. The fair value of financial assets is based on listed bid prices or derived from cash flow models.

The categories are explained in more detail in the following section.

15.5.4.1 Investments

Loans and receivables (amortised cost)

The category loans and receivables comprises unlisted investments with a fixed term and the saving components of endowment mortgages that the insurance company has concluded. The loans and receivables are measured at amortised cost using the effective interest method, less a provision for impairment if necessary.

Available for sale (fair value through other comprehensive income)

Investments that do not meet the criteria defined by management for ‘loans and receivables’ or ‘fair value through profit or loss’ are classified as available for sale.

After initial recognition, investments available for sale are restated at fair value in the balance sheet. Unrealised gains and losses resulting from fair value adjustments of these investments are recognised in other comprehensive income (shareholders’ equity), taking account of deferred taxes.

When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as ‘investment income’. SRLEV uses the average cost method to determine the results.

Fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading purposes (‘held for trading’) or if it is designated as such upon initial recognition (‘designated’). Investments are only designated as valued at fair value through profit or loss if:

a this eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
b SRLEV manages and assesses the investments on the basis of fair value.

Investments are recognised at fair value. Realised and unrealised gains and losses are recognised directly in the income statement under ‘investment income’.

Interest income earned on securities is recognised as interest income under ‘investment income’. Dividend received is recorded under investment income.

15.5.4.2 Investments for account of policyholders (fair value through profit or loss)

Investments on behalf of policyholders are classified as measured at fair value through profit or loss. They are designated as such, as the corresponding financial liabilities are also measured at fair value (see section 15.5.12.3 'Life insurance contracts on behalf of policyholders'). Amounts due by policyholders in this context are recognised in the income statement as 'premium income'. Adjustments in the value of investments and results on the sale of investments are recorded in the income statement under 'investment income for account of policyholders'.

15.5.4.3 Derivatives

General

Derivatives are recognised at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed bid prices for assets held or liabilities to be issued, and listed offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. SRLEV recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Adjustments in the fair value of derivatives that do not qualify for cash flow hedge accounting (see section 19.2.2 Hedge accounting) are accounted for in the income statement under 'result on financial instruments'.

Embedded derivatives

An embedded derivative is treated as a separate derivative if there is no close relationship between the economic characteristics and risks of the derivative and the host contract, if the host contract is not measured 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 value are recognised in the income statement.

Hedge accounting

SRLEV uses derivatives as part of asset and liability management and risk management. These instruments are used for hedging interest rate and foreign currency risks, including the risks of future transactions. SRLEV can designate certain derivative as either:

1. a hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or
2. a hedge of the possible variability of future cash flows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Hedge accounting is applied for derivatives that are thus designated and are in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A hedge relationship is considered to be effective if SRLEV, at the inception of and during the term, can expect that adjustments in the fair value or cash flows of the hedged position will be almost fully offset by adjustments in the fair value or cash flows of the hedging instrument, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome.

SRLEV ceases the hedge accounting relationship after a management decision to this end or as soon as it has been established that a derivative is no longer an effective hedging instrument; when the derivative expires, is sold or terminated; when the hedged item expires, is sold or redeemed; or when an expected transaction is no longer deemed highly likely to occur.

Fair value hedge accounting

Derivatives designated as a hedge of the fair value of recognised assets or of a firm commitment, are stated as fair value hedges. Changes in the fair value of the derivatives that are designated as a hedge are recognised directly in the income statement and reported together with corresponding fair value adjustments to the hedged item attributable to the hedged risk.

If the hedge no longer meets the conditions for hedge accounting, an adjustment in the book value of a hedged financial instrument is amortised and taken to the income statement during the expected residual term of the previously hedged financial instrument.

If the hedged item is no longer recognised, in other words, if it is sold or redeemed, the non-amortised fair value adjustment is taken directly to the income statement.

Cash flow hedge accounting

Derivatives can be designated as a hedge of the risk of variability of the future cash flows of a recognised asset or liability or highly probable forecast transaction. Adjustments in the fair value of the effective portion of derivatives that are designated as a cash flow hedge and that meet the conditions for cash flow hedge accounting are stated in the cash flow hedge reserve as a separate component of shareholders' equity. The underlying measurement of the hedged item, which is designated as part of a cash flow hedge, does not change.

If the forecast transaction leads to the recognition of an asset or a liability, the accumulated gains and losses that were previously taken to the cash flow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

When determining the portion of the fair value adjustment of the hedging instrument that is included in the cash flow hedge reserve, the portion of the gain or loss on the hedging instrument that is considered an effective hedge of the cash flow risk is included in shareholders' equity, while the ineffective portion is recognised in the income statement.

If the hedging instrument itself expires or is sold or terminated, or no longer meets the conditions for hedge accounting, the accumulated result that was included in the cash flow hedge reserve fully remains in the cash flow hedge reserve (OCI) until the expected transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated result reported in OCI is directly recycled to the income statement.

15.5.5 Taxes

15.5.5.1 Deferred tax assets

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are only recognised if sufficient tax profits are expected to be realised in the near future to compensate these temporary differences. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless SRLEV can determine the time at which these temporary differences will end and if it is likely that these differences will not end in the near future.

Deferred tax assets are assessed at the balance sheet date and if it is no longer likely that the related tax income will be realised, the asset is reduced to the recoverable value.

The most significant temporary differences arise from the revaluation of property and equipment, certain financial assets and liabilities, including derivative contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, technical provisions, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value of the acquired assets and obligations entered into and (b) the book value.

Deferred taxes with respect to the revaluation of the aforementioned assets and liabilities of which value adjustments are recognised directly in shareholders' equity are also charged or credited to shareholders' equity and upon realisation included in the income statement together with the deferred revaluations.

15.5.5.2 Deferred tax liabilities

Deferred tax liabilities concern tax payable in future periods in connection with taxable temporary differences. The treatment is in accordance with the disclosure in the previous section.

15.5.5.3 Corporate income tax

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any. Current tax receivables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

15.5.6 Reinsurance contracts

Contracts entered into with reinsurance companies and by virtue of which SRLEV receives compensation for losses on insurance contracts SRLEV has issued, are designated as ceded reinsurance contracts. Insurance contracts entered into with another insurance company are classified as incoming reinsurance contracts and are recognised as insurance contracts.

Reinsurance premiums, commissions, payments and technical provisions for reinsurance contracts are accounted for in the same way as the direct insurance policies that are reinsured. The share of reinsurance companies in the technical provisions and the benefits to which SRLEV is entitled by virtue of its reinsurance contracts, are accounted for as a reinsurance asset. These assets comprise short-term receivables from reinsurance companies (presented under ‘other assets’), and long-term receivables (presented under ‘reinsurance contracts’). These receivables depend on the expected claims and benefits arising from the insurance contracts that SRLEV has reinsured. The deposit components of (re)insurance contracts that is within the scope of IFRS 4 Insurance Contracts will be recognised in the balance sheet under ‘insurance contracts’.

The amounts receivable from, and payable to, reinsurance companies are valued in accordance with the terms and conditions of each reinsurance contract. Reinsurance obligations relate primarily to premiums payable for reinsurance contracts. These premiums are recognised as an expense over the period in which they are due.

15.5.7 Loans and advances to banks

These concern receivables to banks with a remaining maturity of one month or more, and not in the form of interest-bearing securities. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

15.5.8 Other assets

Other assets consist of receivables from direct insurance policies, other taxes (including VAT, payroll tax), other receivables and accrued assets. Accrued assets also include the accumulated interest on financial instruments measured at amortised cost, as well as other accruals.

15.5.9 Cash and cash equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month.

15.5.10 Equity

15.5.10.1 Issued share capital and share premium reserve

The share capital comprises the issued and paid-up ordinary shares. The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares. Costs directly attributable to the issue of equity instruments net of tax are deducted from the share issue income.

15.5.10.2 Dividend

Dividend for a financial year, which is payable after the balance sheet date, is disclosed in section 26.1 ‘Provisions regarding profit or loss appropriation’ under ‘Other information’.

15.5.10.3 Revaluation reserve

Revaluations of property in own use (see section 15.5.2.1 Land and buildings in own use) are included in the revaluation reserve.

15.5.10.4 Cash flow hedge reserve

The cash flow hedge reserve consists of the effective part of cumulative changes to the fair value of the derivative designated in the context of the application of cash flow hedge accounting, net of taxes, provided the hedged transaction has not yet occurred; see section 15.5.4.3 Derivatives.

15.5.10.5 Fair value reserve

Gains and losses as a result of changes in the fair value of assets that are classified as available for sale are recorded in the fair value reserve, net of taxes. If the particular assets are sold, settled or become due to other reasons, the assets is are no longer recognised, the corresponding cumulative result will be transferred from the fair value reserve to the income statement (see section 15.5.4.1 Investments). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are recorded in this reserve.

15.5.10.6 Other reserves

Other reserves mainly comprise SRLEV’s retained profits.

15.5.10.7 Securities capital and securities capital share premium reserve

The securities capital comprises of the share of SRLEV in the capital securities issued by SNS REAAL and paid up by the Dutch State. The capital securities share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued securities. Costs directly attributable to the issue of the capital securities are deducted net of tax from the share issue income of the securities.

15.5.11 Subordinated debt and final bonus account

15.5.11.1 Subordinated debt

Subordinated debt includes the subordinated bonds and private loans issued by SRLEV. The Dutch Central Bank recognises this debt Tier 2 capital at SRLEV. This debt is initially measured at fair value, meaning, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, the debt is measured at amortised cost, using the effective interest method.

15.5.11.2 Final bonus account

The final bonus account concerns final bonus commitments in relation to certain life insurance policies. Entitlement to a final bonus applies only to specific individual insurance contracts that become payable upon expiry of the agreed term or upon the death of the insured party. Entitlement to a final bonus is cancelled when the insurance contract is surrendered. Entitlements to final bonuses not yet paid out are subordinated to all other debts. It is also stipulated that entitlement to a final bonus is cancelled if and insofar as the results erode the capital base to the extent that the regulatory solvency requirements can or may no longer be complied with.

The final bonus account is determined actuarially based on the same accounting principles that are applied for the valuation of the profit additions, which form part of the liabilities arising from insurance contracts. In addition, the estimated probability of early termination of insurance contracts is taken into account. Part of the final bonus account is converted annually, according to a fixed method, into an unconditional right of the policyholder and added to the liabilities arising from insurance contracts.

The obligations arising from the final bonus scheme are classified as debt capital in the financial statements. This item is part of the available regulatory capital in the solvency reports to the Dutch Central Bank of the Insurance activities.

15.5.12 Insurance contracts

15.5.12.1 Life insurance

Life insurance contracts can be separated into individual insurance contracts and group insurance contracts. These contracts provide mostly long-term insurance for events that lead to a payment in cash, or of the counter value of investment units, upon maturity or death of the insured.

Life insurance in cash

SRLEV's individual life insurance contracts in cash can be divided into the following product groups: offset mortgage insurance, annuities, term insurance policies, savings policies, and funeral insurance policies. These contracts concern life insurance whereby the risk is borne by SRLEV.

Profit sharing

In addition to non-profit sharing insurance contracts, the insurance portfolio also contains insurance contracts with discretionary or contractual profit-sharing rights. Discretionary profit sharing schemes are connected to the contractual right of individual policyholders to receive additional benefit payments over and above any insured or guaranteed capital. The determination of the amount and timing of these additional benefits is at the discretion of SRLEV's Executive Board. The profit-sharing obligations already granted are also included in the liabilities arising from insurance contracts.

In addition to discretionary profit sharing, there are also individual and group contracts with contractual profit sharing.

These include profit-sharing based on a share of any surplus interest profits and profit sharing based on a share of any insurance profits. The already granted obligations of these are included in the liabilities arising from insurance contracts.

Unit linked life insurance

The claims from these insurance contracts are directly linked to the underlying investments. Given this link, the technical provisions held in respect of these policies move in line with movements in the value of these investments. The policyholder determines how SRLEV should invest the amount of any premiums paid after deduction of costs and risk premium. To this end, SRLEV has created separate investment funds.

The investment risk is borne by the unit linked policyholders. In addition to deciding how funds should be invested, policyholders are also free to alter the policy at any time depending upon their personal and/or financial situation.

Within investment insurance, SRLEV issues guarantees on returns for a limited number of investment funds.
Group insurance contracts with segregated pools are recognised under unit linked group insurance contracts.

15.5.12.2 Life insurance policies for own account

An obligation to make future contractual payments is recognised as soon as the insurance contract takes effect. The provision for life insurance policies for own account and risk consists of the discounted value of expected future benefits payments to policyholders or other beneficiaries, less future premiums (net premium method).

Assumptions in basis rates

The assumptions used in the valuation of life insurance policies at the balance sheet date are based on the calculation principles set at the time of the issue of the policy. Furthermore, a periodic IFRS liability adequacy test is performed. For estimates, assumptions and an explanation of the test, please refer to section 15.3.6.2 Insurance contracts.

Provisions for longevity risk

Particularly with regard to the pension portfolio, liabilities arising from insurance contracts may become insufficient on this item due to the extended life expectancy of the insured persons. For this longevity risk, additional allocations were made to the provision in the past and provisions of acquired insurance companies have been maintained. Since 2008, in conjunction with the legal merger of different life entities and the increased possibility of compensation with short-life risk, the provisioning policy has been differently shaped. No additions to the provision for longevity risks are recorded, as long as there is sufficient compensation by positive risk premiums on other risk in the total portfolio. Furthermore, the actual longevity risk forms a part of the liability adequacy test.

Cost surcharges

Premiums include loadings to cover expenses. When the premiums are received or fall due, the surcharges are released and are then available to cover actual expenses, including renewal expenses and acquisition costs.

Interest rate discount

Liabilities arising from insurance contracts are determined net of capitalised interest rate rebates. These interest rate rebates are amortised on an actuarial basis.

Provisions for disability risk

Under liabilities arising from insurance contracts, a provision is maintained for the entitlement to a waiver of premium in the event of disability and for the no-claim disability annuities. This provision is based on a factor times the annual premium that applies for the disability risk. The level of the factor is determined, inter alia, based on IBNR techniques derived from empirical data for claim behaviour. The principles for valuation of disability covers that have entered into force, including the waiver of premium, are the same as the principles for the main insurance policy.

15.5.12.3 Life insurance contracts on behalf of policyholders

These contracts concern insurance policies where the investment risk is borne by the policyholders. The liabilities arising from these contracts consist of the technical provisions for the value of the underlying investments, the value of interest rate guarantee and the value of the insurance component.

Technical provisions linked to the investments related component

The technical provisions for the underlying investments of these insurance contracts are set equal to the (fair) book value of the related underlying investments. As a result, these technical provisions (and also the underlying investment) are recorded at fair value through profit or loss. Transaction costs and commission are not included in the initial valuation but charged to the income statement as these transactions are concluded.

Interest rate guarantees

Interest rate guarantees have been issued with a number of unit linked insurance policies. This guarantee only applies at the maturity date of the insurance policy. Prior to maturity, the provision held for these policies is equal to at least the accumulated amount of premiums paid plus interest less any expense and mortality charge deductions, adjusted for future lapses. If, for the collective contracts, the income from investments is not sufficient to cover the obligations due to guaranteed returns, in the insurance liabilities an additional provision is made and charged to the income statement.

Insurance component

The insurance component in these insurance contracts is determined based on the basis rate.

15.5.12.4 In insurance contracts embedded options and guarantees

SRLEV does not separately recognise embedded derivatives in insurance contracts, like options to surrender insurance contracts at a fixed amount, or at a fixed amount and an interest rate, and thus closely linked to the basic insurance contract but recognises these under the host contract from which they stem. The embedded derivatives are measured as soon as the technical provision made for the host contract drops below the guaranteed minimum. The time value is not included in the measurement.

15.5.12.5 Profit sharing, bonuses and rebates

The present value of any profit sharing that has been awarded but not yet distributed is included the provision for profit sharing, bonuses and rebates.

15.5.12.6 Shadow accounting

SRLEV has implemented shadow accounting in accordance with IFRS 4, and therefore ensures that SRLEV's financial statements better reflect the economic matching of insurance assets and liabilities. Shadow accounting is applied on:

- insurance contracts with profit sharing;
- insurance contracts without profit sharing, in and insofar the current market interest rate is below the interest rate used in pricing the contract when it was entered into, seen at portfolio level. (Shadow loss: refer to section 15.3.6.2 Insurance contracts); and
- certain interest related options and guarantees in insurance contracts on behalf of policyholders.

The assets on which shadow accounting is applied concern fixed income investments available for sale and interest derivatives.

Shadow accounting is applied on gains and losses on (derivative) assets that match insurance liabilities, regardless of whether these have or have not been realised and regardless of whether the unrealised gains and losses are recognised in the income statement or directly in the fair value reserve (shareholders’ equity).

The gains and losses on assets recognised in shareholders’ equity have a mirrored change as gains and losses in the insurance liabilities. The gains and losses on assets recognised in the income statement have a mirrored change in the gains and losses presented in the technical claims and benefits.

15.5.13 Employee benefits

SRLEV staff is contractually employed by SNS REAAL and SRLEV is charged for its share in current year's staff expenses, including employee benefits. SNS REAAL's employee benefits accounting principles are as follows:

15.5.13.1 *Short-term remunerations for employees*

Short-term remunerations for employees include, inter alia, salaries, short paid leave, profit sharing and bonus schemes. These short-term remunerations are accounted for in the income statement over the period in which the services are rendered. In the event that employees have not made use of their entitlements at the end of the period, a liability is formed for the nominal amount.

15.5.13.2 *Pension benefits*

General

SNS REAAL has pension liabilities from defined contributions scheme, where the employer has no actuarial and investment risks and there is no risk that the employer must pay for accrued rights, as well as defined benefit plans, where these risks do exist.

The main pension scheme is a defined contribution scheme at Stichting Pensioenfonds SNS REAAL. New staff is included in this scheme. In addition, for the staff of SNS REAAL there is a number of defined benefit pension plans of insurance companies acquired in the past. These are no longer open to new entrants.

Defined contribution schemes

A defined contribution plan is a pension plan in which fixed contributions are paid to a separate entity, of which the main entity is the independent Stichting Pensioenfonds SNS REAAL (the pension fund). SNS REAAL has no legally enforceable or actual obligation to pay if this fund has insufficient assets to make all the benefit payments related to employment in the current period or in prior periods. The regular contributions in the defined contribution plans are considered to be net periodic costs for the year in which they are due, and are recognised as such in the staff costs. Employee contributions are deducted from the net periodic costs.

Defined benefit schemes

SNS REAAL also has a number of defined benefit pension plans relating to acquisitions. This relates to the pension rights on account and risk of SNS REAAL of (former) employees continuing under the old acquired pension schemes of AXA, Winterthur, Zwitserleven, Zürich, NHL and DBV. Only so-called dormant participants and retirees participate in these old schemes.

Net liability (or asset) from defined benefit pension schemes

This is the sum of gross pension entitlements from defined benefit pension schemes less the for deduction qualifying assets of these schemes. Netted an asset can arise, which then is deducted from the sum of liabilities insofar this exceeds the by IFRS determined limit (see hereafter). The net commitment arising from defined benefit pension plans is calculated separately for each plan. Qualifying assets are investments from pension funds or insurance contracts at insurance companies outside the SNS REAAL group.

Gross pension entitlements from defined benefit pension schemes

The present value of gross liability arising from pension entitlements is calculated yearly by an independent actuary based on the 'projected unit credit'-method. In principal this method evenly distributes the pension costs over the period in which an employee performs services for SNS REAAL.

The present value of the pension liability is determined by discounting the expected pension payments with the yield of highly rated corporate bonds ('AA'-rating) which have an equal maturity to the date of payment.

Self-administered pension schemes
Entitlements from self-administered defined benefit pension schemes are insured within the SNS REAAL group at SRLEV (Business Unit Zwitserleven). The investments which Zwitserleven holds for these contracts, do not qualify as pension investments and are therefore included in investments (for own account).

Income statement

General
The costs of defined contributions schemes are recognised when the contributions are due. For defined benefit schemes the following is recognised in the income statement:

- the periodic pension costs of the participants of this scheme who are still employed by SNS REAAL;
- costs of improvement (or from the costs deducted value of brought back entitlements) of these pension schemes, insofar these are related to employment in the past;
- results from definitive settlements of pension entitlements and
- the net interest of the net defined benefit pension liability (or asset).

Net interest defined benefit pension schemes
The net interest is calculated with the actuarial discount rate for the determination of the present value of the gross pension entitlements. This net liability (or asset) is determined at the start of the yearly reporting period, taken into account possible changes as a consequence of contributions from SNS REAAL or employees and pension payments during the year.

Interest costs exist of the actuarial interest costs of the gross liability of defined benefit pension entitlements, the fixed result of qualifying investments (calculated with the discount rate of the gross defined benefit entitlements) and the interest on the excess of the limit which was determined, when netted an asset exists. The interest on the amount with which an arisen asset exceeds the set limit is part of the total change from the effect of not recognising the asset as a consequence of this limit. This interest is determined by multiplying the amount with which the limit is exceeded with the actuarial discount rate. This negative amount is part of the determination of the net interest on one side, on the other side it is part of the revaluation.

Revaluation liabilities from defined benefit pension schemes
In shareholders' equity (Other comprehensive income) the following revaluations of the net pension liability (or asset) are recorded:

- actuarial gains and losses;
- the during the year actually realised gains on qualifying investments of defined benefit pension schemes, after deduction of the fixed result based on the actuarial discount rate which is included in the net interest from defined benefit pension schemes and
- the effect of limit, if applicable, for assets.

Revaluations are not reclassified in the next reporting period to the income statement, but can be transferred to another component within shareholders' equity, for example to settlement of pension entitlements.

Asset ceiling defined benefit schemes
Under IAS 19 the value of assets (investments) of a pension fund are deducted from the pension liability. If the value of the investments in the pension fund exceeds the pension liability the sum is presented as an asset up to the amount that can flow back to the company in the future (the ceiling) in the form of refunds or through lower contributions.

The amount which exceeds the ceiling is deducted from the asset through the income statement. The interest on this excess amount is taken up as a negative component in the determination of the net interest on a possible remaining asset.

The excess value can arise from investment or actuarial gains or from contributions from the employer based on the financing agreement with the pension fund, which, amongst others, is based on the pension liability which the pension fund calculates themselves based on the parameters set by the supervisor, DNB.

15.5.13.3 Other employee commitments

The other employee commitments refer mostly to discounts granted for bank and insurance products to (former) employees after the date of their retirement. The size of the obligation is based on the present value of the discounts offered after the retirement date, taking into account actuarial assumptions about mortality and interest. Furthermore, an obligation has been recognised for reimbursement of medical expenses.

To qualify for these benefits, the employment contract of the employee should normally have continued until the retirement age, and it should have lasted for a specified minimum period. A liability is taken for the estimated costs of these benefits during the term of employment using a method that corresponds with that used for defined benefit pension plans.

15.5.13.4 Share-based remunerations

2012 scheme

SNS REAAL has a share based remuneration plan in which a number of employees of SNS REAAL and its group entities may participate. This share-based remuneration is denominated in SNS REAAL shares. When the share-based remuneration is settled in shares this results in an increase of shareholders' equity. If the share-based remuneration is settled in cash, a liability is taken into account.

The costs of share-based remunerations are accounted for over the period in which the services are rendered for the part that is unconditionally granted. As for the part granted on the condition of continuation of employment during a number of years (the loyalty period) the costs are taken into account in the service period. If the employment is terminated before the end of the loyalty period and the entitlement to the remuneration expires, the costs already expensed are reversed to profit and loss.

The fair value of the share-based remuneration that will be settled in shares is determined on the grant date. The number of shares to be granted is adjusted on each balance sheet date.

The costs of the shares related to the share-based remuneration of staff of group entities are charged by SNS REAAL to these entities.

2013 scheme

As a consequence of the nationalisation the shares of SNS REAAL are expropriated and no longer listed. Under the new scheme, which came into effect as of 1 January 2013, several employees of SNS REAAL and related entities have been provided phantom shares. The change in the value of a phantom share is based on the development of SNS REAAL's result, excluding any possible incidental income and expenses. The value of the phantom share is paid out at maturity date.

The value of the phantom share is recognised as cost in the period in which the services have been delivered. In the subsequent periods the change in value is recorded in the results until the date of payment.

15.5.14 Provisions

15.5.14.1 General

Provisions are made if there is a legally enforceable or present obligation arising from events in the past, the settlement of which is likely to require an outflow of assets, and a reliable estimate of the size of the obligation can be made. Provisions are measured at the present value of the expected future cash flows. Additions and any subsequent releases are recorded in the income statement.

15.5.14.2 Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

SRLEV recognises severance payments if SRLEV has demonstrably committed itself, either through a constructive or legally enforceable obligation, to:

- the termination of the employment contracts of current employees in accordance with a detailed formal plan without the option of the plan being withdrawn; or
- the payment of termination benefits as a result of an offer to encourage voluntary redundancy.

Benefits that are due after more than twelve months after the balance sheet date are discounted.

15.5.14.3 Legal provisions

SRLEV makes a provision for legal proceedings at the balance sheet date for the estimated liability with respect to ongoing legal proceedings. The provision comprises an estimate of the legal costs and payments due during the course of the legal proceedings, to the extent that it is more likely than not that an obligation exists at the balance sheet date, and a reliable estimate can be made of the obligation.

15.5.15 Financial liabilities

15.5.15.1 Derivatives

See section 15.5.4.3 Derivatives.

15.5.15.2 Liabilities related to collateral and receivables

Liabilities related to collateral and receivables comprise liabilities to reinsurers related to and linked to collateral received from these reinsurers and liabilities to SNS Bank related to and linked to receivables from SNS Bank

Upon initial recognition, these are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost. Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised under ‘interest expense' in the income statement.

15.5.15.3 Amounts due to banks

Amounts due to banks comprise unsubordinated debts to credit institutions. Bond loans to banks are recognised under 'debt certificates'. Amounts due to banks include private loans, current accounts and outstanding repos.

Upon initial recognition, these are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost. Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised under 'interest expense' in the income statement.

15.5.16 Other liabilities

Other liabilities primarily consist of interest accrued on financial instruments that are stated at amortised cost. This item also includes creditors, other taxes and accrued liabilities.

15.6 Specific income statement accounting principles

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate. Costs are capitalised insofar as they pertain to the acquisition of insurance contracts. For more information, please refer to section 15.5 Specific balance sheet principles.

A number of SNS REAAL's corporate staff departments are shared. The costs of the corporate staff departments are charged to SRLEV on the basis of the services provided, or, if more appropriate, proportionally allocated to SNS REAAL's subsidiaries. The costs of the Executive Board, the costs of the strategic reorientation of SNS REAAL and the resulting incidental costs are not allocated

15.6.1 Income

Income represents the fair value of the services, after elimination of intra-group transactions within SRLEV. Income is recognised as described in the following sections.

15.6.1.1 Premium income

The premium income from insurance contracts, excluding taxes and other charges, is divided into regular life (including pensions) and single-premium life premiums.

Regular life premiums, single-premium contracts and limited-premium life insurance policies from life insurance contracts are recognised as income when payment by the policyholder falls due. Interest rate rebates and rate rebates are included in gross premium income and charged to technical claims and benefits during the amortisation period.

15.6.1.2 Reinsurance premiums

This item represents the premiums on ceded reinsurance contracts. These are recognised as a charge to the income statement in proportion to the term of the contract.

15.6.1.3 Fee and commission income

Fee and commission income include income from securities transactions for clients, asset management, commission from the insurance operations and other related services offered by SRLEV. These are recognised in the reporting period in which the services are performed. Commission related to transactions in financial instruments for own account are incorporated in the amortised cost of this instrument, unless the instrument is measured at fair value through profit or loss, in which case the commission is included in the result.

15.6.1.4 Fee and commission expenses

Commission and management fees due are included under ‘fee and commission expense’. These costs are recognised in the reporting period in which the services are provided.

15.6.1.5 Share in the result of associates

The share of SRLEV in the results of the associates is here accounted for. If the book value of the associated company falls to zero, no further losses are accounted for, unless SRLEV has entered into commitments or made payments on its behalf.

Where necessary, the accounting principles applied by the associated companies have been adjusted to ensure consistency with the accounting principles applied by SRLEV.

15.6.1.6 Investment income

Investment income consists of interest, dividend, rental income and revaluations.

Interest

Interest

The item interest comprises the interest income from investments.

Interest on financial assets is accounted for using the effective interest method based on the actual purchase price. The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, SRLEV calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with related direct costs, are deferred and recognised as an adjustment of the effective interest on a loan if it is likely that SRLEV will conclude a particular loan agreement. If the commitment expires without SRLEV extending the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment term.

Interest income on monetary financial assets that have been subject to impairment and written down to the estimated recoverable value or fair value is subsequently recognised on the basis of the interest rate used to determine the recoverable value by discounting the future cash flows.

Dividend

Dividend

Dividend income is recognised in the income statement as soon as the entity’s right to payment is established. In the case of listed securities, this is the date on which these securities are quoted ex-dividend.

Rental income

Rental income

Rental income consists of the rental income from investment property and property projects. This rental income is recognised as income on a straight-line basis for the duration of the lease agreement.

Revaluations

Revaluations

Under revaluations, realised and unrealised increases and decreases in the value of investments in the category fair value through profit or loss are recognised. The revaluations concern the difference between on the one hand the fair value at the end of the reporting period or net proceeds from the sale during the reporting period, and on the other hand the fair value at the beginning of the reporting period or the purchase price during the reporting period.

Realised revaluations of investments in the other categories are recognised here, being the difference between sales price and amortised cost.

15.6.1.7 Investment income for account of policyholders

This is the investment income on investments held on behalf of life insurance policyholders. These investments are measured at fair value. Increases and decreases in the value of investments are recognised in the income statement as ‘investment income for account of policyholders’. The dividend and interest on behalf of policyholders are also accounted for in this item.

15.6.1.8 Result on financial instruments

The result on derivatives and other financial instruments is recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are taken directly to the income statement under ‘result on financial instruments’. However, if derivatives are eligible for hedge accounting, the recognition of a resulting gain or a resulting loss depends on the nature of the hedged item. The ineffective portion of any gains or losses of a cash flow hedge is recognised directly under ‘result on financial instruments’.

This item also includes the profit or loss from the revaluation of the outstanding debt certificates, which are measured at fair value after initial recognition, with value adjustments taken in the income statement.

In addition, buy back results on own funding paper and results from the sale of loans are accounted for under this item.

15.6.1.9 Other operating income

This comprises all the income that cannot be accounted for under other headings.

15.6.2 Expenses

Expenses are recognised in the income statement on the basis of a direct relationship between the costs incurred and the corresponding economic benefits. If future economic benefits are expected to be derived across different reporting periods, expenses are recognised in the income statement using a systematic method of allocation. Expenses are directly included in the income statement if they are not expected to generate any future economic benefits.

15.6.2.1 Technical claims and benefits

Net movements in technical provisions are recorded under this item. This includes mainly the addition of required interest and premium payments to cover future benefit payments, less payments due, developments in the portfolio, such as benefit payments and surrenders, the actuarial result on surrender, cancellation and mortality, and amortisation costs of the Value of business acquired (VOBA) and capitalised interest rate rebates.

15.6.2.2 Charges for account of policyholders

The changes in provisions for insurance contracts for the account and risk of policyholders are accounted for under this item (see section 15.5.12.3 Life insurance contracts on behalf of policyholders). Payments to policyholders are also recorded under this item.

15.6.2.3 Acquisition costs for insurance activities

Acquisition costs comprise the direct and indirect costs associated with acquiring an insurance contract or the conclusion of a mortgage in combination with an insurance product, including brokerage fees, the costs of medical check-ups and administrative costs for administering new policies in the portfolio. The change in the provision for unearned premiums, insofar this change relates to the related paid commissions, is also accounted for under acquisition costs.

15.6.2.4 Impairment charges

This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Intangible assets, property and equipment, associated companies, investments, receivables and other assets may be subject to impairment. As soon as impairment is identified, it is included in the income statement. The specific principles for impairment are explained in more detail in section 15.5 Specific balance sheet principles, under the applicable items.

15.6.2.5 Staff costs

These costs concern all costs that pertain to the personnel. This includes, inter alia, salaries, social security costs and pension costs.

15.6.2.6 Depreciation and amortisation of fixed assets

This item comprises all depreciation and amortisation of property and equipment and intangible assets, with the exception of VOBA amortisation. The specific principles for depreciation and amortisation are explained in more detail in section 15.5 (Specific balance sheet principles under the applicable items).

15.6.2.7 Other operating expenses

This includes office, accommodation and other operating costs.

15.6.2.8 Other interest expenses

Other interest expenses comprise the interest expenses in respect of financial obligations arising from insurance operations and group operations. The interest expenses are recognised in the income statement, based on the effective interest method.

15.6.2.9 Other expenses

Other expenses comprises all the expenses that cannot be accounted for under other headings in the income statement. These expenses have no direct relation with the primary and secondary business operations, happen occasionally, and occur in a single financial year, or arise in a single financial year, and are amortised over multiple financial years.

15.7 Contingent liabilities and commitments

Contingent liabilities are liabilities not recognised in the balance sheet because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of SRLEV. It is not possible to make a reliable estimate of such liabilities.

The maximum potential credit risk arising from pledges and guarantees is stated in the notes. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

15.8 Cash flow statement

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in (consolidated) subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

16 Segmentation

The financial statements of SRLEV do not disclose business units. The business units of SRLEV are defined, managed and controlled at SNS REAAL level, as a result of which any presentation of business units in SRLEV would lead to less transparent information for users of the financial statements. For information on business unit level we refer to the financial statements of REAAL NV 2013.

SRLEV has several joint staff departments with parent SNS REAAL. Until 31 December 2012 the costs for the group staff were charged to segments based on the services provided, or where that was not possible, proportionally to the several group segments. The costs of the Executive Board and other specific holding costs were not charged to group segments. As of 1 January 2013, in line with the shareholder’s required wind-down of the holding company, the costs of group staff have been completely allocated to consuming segments. The allocation takes place in two steps. Step 1 relates to the allocation of as much costs as possible based on the services received (regular allocation). In step 2 the residual costs are proportionally divided based on available personnel. The costs for strategic reorientation of SNS REAAL and the resulting incidental costs will not be allocated (in 2013: the costs of the transfer of the AXA-pension).

17 Risk management and organisation

The risk management organisation of SRLEV NV and its subsidiaries is integrated in the risk management organisation of SNS REAAL. The chapter, which amongst other includes the risk management organisation and the framework of business control, thus covers SNS REAAL as a whole. The remaining risk management chapters 18 to 21 are focussed on SRLEV.

17.1 Main developments risk profile

SRLEV's commercial activities, offering accessible insurance products, involve risks, whereby the exposure to proprietary trading, complex products or foreign currencies, is limited.

A summary of the developments on the risk profile and capital of SRLEV is presented below, and explained in further detail in the subsequent chapters.

Capital management

Regulatory solvency of SRLEV NV amounted to 187% compared to 211% at the end of 2012. Solvency was negatively impacted by the downgrade of France in July 2013 by Fitch, after which French government bonds were excluded from the ECB AAA curve used to calculate regulatory solvency. The subsequent downward shift of the ECB AAA curve had a negative impact on solvency of 31%-points. Furthermore, parameter changes, which mainly consisted of adjustments of cost parameters (including the impact of the additional structural cost allocation from the holding company), adjustments of the valuation of mortgages and the use of more prudent mortality tables, an increase in the number of homogeneous portfolios and adjustments in the risk margin used in the solvency calculation had a combined negative impact of 24-points%. The negative factors were largely compensated by the development of interest rates, credit spreads and underlying net profit had a positive impact.

A further explanation on capital management can be found in Chapter 21 Capital management.

Market risk SRLEV

Regulatory solvency of SRLEV NV is mainly sensitive to both changes in insurance risk (amongst other longevity and expenses) and market risk (amongst other interest rates and credit spreads). In 2013 the exposure to longevity risk increased due to the larger sensitivity with regard to longevity for the separate accounts. Expense risk is in line with 2012.

In 2013 the interest rate sensitivity of liabilities decreased due to a combination of actuarial model changes, method changes and enhanced insights in sensitivities. In response, interest rate sensitivity of assets was actively reduced as well. Sensitivity of solvency to changes in credit spreads of bond positions (corporate and non-AAA sovereigns) slightly increased.

A further explanation can be found in Chapter 18 Financial risk management.

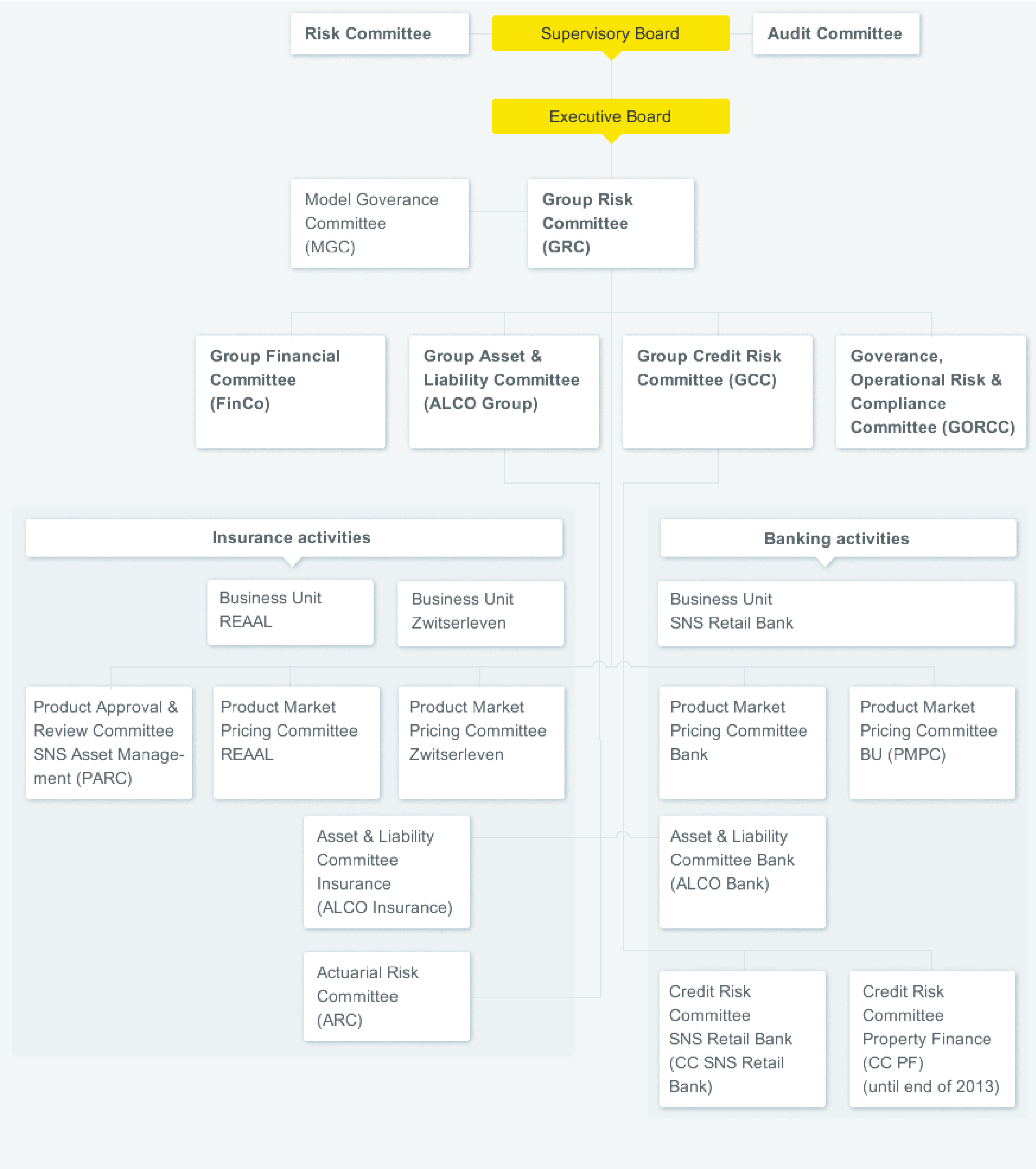
17.2 Risk management organisation

SRLEV as part of REAAL NV is included in the risk management organisation of SNS REAAL. The SNS REAAL Business and Risk Governance focuses on improving the quality of risk management and achieving efficiency in risk control. The risk management framework aims at further strengthening the policy and its implementation in the business operations.

Due to the proposed separation of SNS REAAL's banking and insurance activities, the responsibility for the risk management policy and risk control framework will be transferred to the individual entities as from 2014. The Bank and Insurer shall be individually responsible for implementing their risk management strategy and policy, including setting the risk tolerance and implementation of the risk control framework. The Executive Board sets the risk appetite for the Holding, the Bank and the Insurer. The Bank and the Insurer are responsible for embedding the risk appetite at the business unit level.

Following the transfer of responsibilities, the CFRO shall remain seated at the Holding. At the level of the Bank and Insurer, responsibilities shall be split between the CFO and CRO within the Management Board. The CFO and CRO will report to both the CFRO of the Holding and the chairman of the Management Board of the Bank or the Insurer.

The risk management activities of the legal entity SRLEV NV will be organised into the two relevant business units; REAAL and Zwitserleven.



The statutory Management Board is responsible for achieving the commercial, operational and financial objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels. The business units operate within the frameworks established at Group level for risks including credit risk, insurance risk, integrity risk and operational risk. Asset & Liability Management is managed at Group level. The (risk) policy frameworks are established in the Group Risk Committee (GRC).

Responsibility levels in risk management

For the purpose of risk management, SNS REAAL distinguishes three responsibilities based on the ‘three lines of defence’ model used as best practice in the financial sector. This distinction defines clear responsibilities and guarantees that risk management is an important subject taken up by the entire organisation:

- The **first line** has an operational role, focusing on the primary and operational process of the business activities. Within the policy framework and subject to internal procedures and risk limits, the objective of the first line is to achieve optimum risk/return ratios. Business plans are drawn up in the first line.
- The **second line** (‘Risk Control’) first of all has a **managing and accepting** role in respect of the transactions proposed by the first line. Risk Control supervises the correct execution of approved actions and transactions in the first line and is responsible for the risk profile against the backdrop of the risk appetite. Risk management processes occurring in correlation with other BU divisions are coordinated via the relevant Group staff departments.

  Secondly, Risk Control is responsible for **formulating the framework** and has an **oversight role**. It sets out the policy framework, but leaves execution and acceptance to the first line. The second line also assesses policy compliance on a regular basis, using risk reports and its own observations.

  Further, Risk Control sets the mandates in line with the risk appetite. It also defines basic principles and preconditions for risk models and supports central decision making bodies.

  The data, models, assumptions, techniques, etc., used are validated periodically. Model validation is a differentiation of the second line.
- The **third line** has a supervising and safeguarding role. This line supervises the proper functioning of the risk management function, conducts audits and identifies any deficiencies in risk governance, risk systems and internal controls. In addition, it evaluates if measures have been adequately carried out and have been made compliant. The third line guarantees the effectiveness of risk governance (from risk taking to risk control) to the Audit Committee and the Risk Committee, the Executive Board and the Supervisory Board.

The responsibilities within the risk management organisation have been clearly defined, with the Group Risk Committee (GRC) being the highest risk management body reporting to the Executive Board and primarily setting the framework. SNS REAAL’s Chief Financial Officer is also the Chief Risk Officer. Risk owners have been appointed within the Executive Board and the Management boards of the two business units. These owners are each individually responsible for defining and the execution of the risk policy for their assigned focus areas.

The risk principles used to define the risk management structure, which aim at a consistent risk management approach, are as follows:

- One shared Group-wide risk type classification.
- A pre-set risk tolerance (‘Risk Appetite’) for each identified risk type.
- Scenario analyses for stress situations and measures for emergency situations with regard to the key risks.
- Testing and validating the models that are used for risk management.
- Assigning risk owners to all identified risks.
- Monitoring and assessment of risks independently of commercial operations.

17.3 Risk management committees

SNS REAAL NV's Executive Board and the statutory Management board of SRLEV NV have ultimate responsibility for the risk management within the Group and the Insurance activities. The risk committees established within SNS REAAL have an operational role and, if necessary, they determine frameworks within the mandate from the GRC. The Supervisory Board has its own committees.

17.3.1 Risk Committees at SNS REAAL Group level

Risk Committee

The Risk Committee comprises at least three members of the Supervisory Board. This committee assesses, amongst others, the profile of SNS REAAL's financial and non-financial risks, in particular whether capital allocation, investment policy and liquidity requirements on the strategic level correspond with the approved risk appetite. In addition, the Risk Committee assesses the design and operating effectiveness of the risk management organisation, including supervision of compliance with the relevant laws and regulations and codes of conduct, as well as the use of information technology in risk management.

Group Risk Committee (GRC)

The Executive Board and the statutory Management board of SRLEV NV are represented in the GRC, enabling statutory decision-making. The GRC is further advised by the executive chairman of SNS Asset Management, the CFO Group Finance, as well as the directors of Group Risk Management, Compliance, Security & Operational Risk Management and Group Audit.

The GRC defines the desired risk profile for financial and non-financial risks, and determines the risk appetite, risk policy frameworks and risk management framework for SNS REAAL and its business units. In addition, the GRC approves the liquidity plan and the capital plan.

Other Risk Committees at SNS REAAL Group level

The other Group committees have mutually equal status in the risk committee structure. Their primary focus is on optimising risk and return within the defined frameworks. In their framework-formulating role, they ensure that the frameworks set by the GRC are enforced and are further elaborated where necessary. All committees have a clear reporting line and escalation line to the GRC, both for powers and for decisions.

In their operational role, the Group committees decide on matters concerning the banking and insurance activities, as well as on matters that go beyond the powers of the banking activities or the insurance activities.

At Group level, SNS REAAL also has the following 'risk committees':

- **Group Asset & Liability Committee (ALCO Group)** to manage all financial risks except credit risk. ALCO Bank and ALCO Insurance operate under the ALCO Group;
- **Group Counterparty & Credit Risk Committee (GCC)** to manage credit risk, including counterparty credit risk (policy) and to approve loans and revisions and to establish the provisions related to receivables, and recovered collateral;
- **Group Financial Committee (FinCo)** to manage the financial and actuarial administration, consolidation, processes and infrastructure, ensuing management information, internal/external financial reporting, results and returns, treasury and tax matters;
- **Model Governance Committee (MGC)** to approve internal models;
- **Governance, Operational Risk & Compliance Committee (GORCC)** to manage the non-financial risks.

17.3.2 Risk Committees at Business Unit level

Local risk committees have been set up within the business units, which operate within the policy frameworks set out by the Group committees, or which solely have an advisory role. The risk committees at business unit level (BU level) are:

- **Product Market Pricing Committee (PMPC)** for the formal approval of products. There is one PMPC for each Business Unit (BU REAAL and BU Zwitserleven). The PMPCs have a direct escalation line to the GRC;
- **Asset & Liability Committee Insurance (ALCO Insurance)** to manage financial risks in the balance sheet of SRLEV NV (excluding credit risk on customers).

Parallel to these committees, there is the advisory body for the Group and the Business Units REAAL and Zwitserleven:

- **Actuarial Risk Committee (ARC)**. This committee gives among others advice on matters including the impact of parameters on rates and models, hedging and technical claims and benefits risks.

17.3.3 Decision making processes Risk management committees

Decisions are made by a majority of the votes present, subject to a quorum set in advance for the relevant committee. In the event of a tie, the chairman decides.

The highest-level risk officer present has a right of veto, and if this right is exercised, the decision making is passed on to the next higher risk committee. Every member of the Group committees has an equal right to vote, and in addition to the voting right, a right to escalate the decision taken within the committee to a higher committee.

In the GRC, decisions can only be taken within the statutory powers allocated to the parties present.

17.4 Risk management departments

In order to promote efficiency and uniformity, the risk management departments advise on risk management and report on the risk profile. They act as shared service centres for SRLEV NV, and they are responsible for modelling, measuring, monitoring, reporting and advice on risks. They are not responsible for determining the policy, but have an advisory role in this area. Actual policy determination is the responsibility of the risk management committees authorised to that end.

This advisory role entails a supporting role in defining and implementing policy, as well as monitoring the quality of risk control.

At SNS REAAL the following departments are involved in risk management of SRLEV NV:

- Group Risk Management (GRM)
- Group Actuarial department and BU Actuarial departments
- Compliance, Security & Operational Risk Management (CS&O)
- Legal Affairs (LA)
- Insurance Treasury & Investment Management (IT&IM)
- Group Audit (GA)

Group Risk Management (GRM)

GRM supports SNS REAAL in taking on well-considered risks and the monitoring thereof for the benefit of all stakeholders. GRM's primary task is to carry out its second-line role based on the 'three lines of defence' model used by SNS REAAL.

Within this context, GRM supports the Executive Board, the Management boards of the business units and other stakeholders in:

- formulating and monitoring the risk profile;
- defining the framework within which the risk owners (can) operate;
- identifying changing market conditions and regulations in the field of Risk Management that are relevant to the strategy and policy;
- ensuring and controlling efficient risk management processes;
- achieving coherence in SNS REAAL's risk management organisation;
- portfolio valuation aiming at structural value creation;
- coordinating strategic projects related to the management of financial risks (including Solvency II programmes);
- building models;
- model validation (including an escalation line to the CFRO).

In addition, GRM gives direction to the areas of attention pertaining to Reinsurance and Economic Capital: advising on policy and framework development, modelling, implementation and monitoring/advising.

Actuarial duties at Group level and at the Actuarial departments of the business units
Within GRM, the actuarial duties are allocated between the Insurance Risk & Policies (IR&P) and Risk Reporting Insurance (RRI) departments. They support the stakeholders within SNS REAAL in assuming and managing all financial risks related to the Insurance activities in correlation with the other risks and returns. In that respect, the IR&P department is responsible for developing and setting the framework, policies and methodologies with regard to the management of technical claims and benefits risks. With regard to the technical claims and benefits risk reports, the RRI department performs a central supervisory role and is responsible for providing relevant management information. This includes identification, measurement and reporting. In this context, the primary focus lies with the impact of insurance risks on the risk profile and the value standards (Value New Business, Embedded Value, etc.).

At business unit level, these duties are entrusted to the risk management department and the actuarial departments of REAAL and Zwitserleven. Besides reporting, these duties consist of modelling and carrying out analyses, providing the business units with advice on technical claims and benefits risks and implementing adopted policies.

The business units accept insurance risks using a system of procedures and criteria for product development and acceptance. Risks that do not fit the profile or risks that exceed pre-set limits – if accepted – are transferred to a reinsurance company as much as possible.

The portfolio development is periodically monitored by committees, represented by members of the Management boards of the Insurance activities and the financial and actuarial departments. For the Life Insurance activities, this includes monitoring developments in expenses, interest and turnover.

Compliance, Security & Operational Risk Management (CS&O)
CS&O advises the Executive Board and the Management boards of the business units on managing non-financial risks. These are risks that are related to human behaviour and structuring of business processes. The main duties of the department are providing recommendations for ethical and controlled business operations, coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, giving advice and providing support with regard to issues related to non-financial risks, providing training & awareness programmes, monitoring and reporting in this respect. The scope of non-financial risks is divided into seven themes: employee, client, business process, product, information, risk control, and collaboration. These themes serve as guidance for the risk analyses to be performed and provide the structure for supervision and risk reporting.

Legal Affairs
Legal Affairs (LA) prepares policy and supports operational activities for risk management. The main responsibilities of the department in this area are:

- identifying and advising on present (and future) legislation and regulations;

- advising on products and product documentation;
- handling (impending) legal disputes;
- advising on cooperation agreements.

Insurance Treasury & Investment Management (IT&IM)
The duties and responsibilities of Insurance Treasury & Investment Management (IT&IM) are primarily aimed at investments for own account and risk of SRLEV NV. In the risk governance structure, IT&IM is the central point of contact of the operationally responsible investment managers. The director of IT&IM is a member of ALCO Insurance and ALCO Group.

The main responsibilities of IT&IM are:

- drafting the strategic investment policy for SRLEV NV;
- operational control on the execution of the strategic investment policy through the asset managers;
- responsible for investments outside the regular mandate, like mortgages and property;
- supervising the asset managers' actions within their mandates, and assessing their performance;
- execution of the hedge policy in respect of balance sheet management for SRLEV NV;
- cash management and other treasury activities;
- monitoring of security lending and repo activities in the insurance portfolios, the execution of which has been outsourced to professional and specialised parties;
- first line investment Risk Management.

Group Audit
Group Audit (GA) reports to the chairman of the Executive Board and also has a reporting line to the Audit Committee of the Supervisory Board. In this way, the department is able to perform its activities independently of the business units and the departments of SNS REAAL.

Group Audit primarily carries out its audits on behalf of the Executive Board based on a dynamic risk analysis. This risk analysis is in line with the Banking Code and the Insurance Code and has been discussed with the external auditor and the Dutch Central Bank. The audits focus on the internal risk management and control system, related processes, procedures and (the reliability of) management information.

Group Audit is also responsible for carrying out differentiated internal audit activities on behalf of the business units' Management boards and line management. These audits focus on the (permanent) effect of control measures included in procedures. In addition, various types of audits are performed at the request of the Management boards, including certification activities for external parties.

17.5 Risk classification

This section explains the risk classification as applied at SRLEV NV.

17.5.1 Financial risks

Credit risk
The risk that a borrower and/or counterparty does not comply with a financial or other contractual obligation. Credit risk is split into default risk, counterparty risk, intra-group risk and transfer risk.

Liquidity risk
The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in time of stress, without this leading to unaccepted costs or losses.

Market risk

The risk that equity, results or continuity is threatened by movements in the level and/or volatility of market prices to which the company is exposed. Market risk is split into price risk, interest rate risk, credit spread risk and currency risk.

Insurance risk

The risk that payments (now or in the future) cannot be financed from premium and/or investment income due to incorrect and/or incomplete assumptions (mortality, disability insurance claims, insurance behaviour, catastrophes) and bases used in the product's development and determination of the product's premium.

17.5.2 Non-financial risks

Integrity risk (compliance risk)

The risk that the company's integrity is harmed by actions (or omissions) contrary to its internal (core) values, social standards and values or behavioural laws and regulations or requirements to be observed by the company when providing its financial services or translating these into internal regulations. This may lead to regulatory measures, financial losses or damage to the company's reputation.

Crime risk

The risk that the company's integrity is harmed by employees, customers or third parties due to fraud (deceit, misappropriation of property, violation of the law, rules or company policy) or criminal activities directed against the company and/or its customers in their relationship with the company.

Operational risk

The risk of direct or indirect losses due to inadequate or deficient internal processes and systems, from inadequate or human error, or from external events. In this sense, the operational risk is all-encompassing. It can be further broken down into IT risks, outsourcing risks, legal risks, integrity risks and other operational risks.

17.5.3 Risks of a mixed nature

Strategic risk

The risk that strategic objectives are not achieved due to lack of response or inadequate or late response to changes in the environment and the business climate.

Strategic risks of a non-financial nature are related to reputation and governance. Strategic risks of a financial nature are related to positioning/acquisitions, capitalisation, concentration of risks and internal models.

17.6 Framework for business control

Taking risks is an integral part of doing business and demands a consistent and transparent assessment of opportunities and risks, aimed at growth and continuity of the company. The Executive Board of SNS REAAL has established frameworks for the Management boards of the business units in order to properly manage such assessments. The most important frameworks are:

- The strategy and strategic risk analyses, to direct the activities of the business units and the organisation as a whole.
- The risk appetite and the ensuing risk profile, which sets limits for taking risks in order to manage risks with respect to the capital requirements and other laws and regulations applicable to SNS REAAL.
- The management structure, including the risk committees, to streamline management focus, to allocate duties and responsibilities, and to deal with new or external impulses (e.g. through takeovers and reorganisations).
- Traineeships, talent and management development programmes, to manage the quality of staff and appointments ('the right person in the right place').
- A remuneration structure that gives substance to the mission and the realisation of SNS REAAL's (long term) strategy.
- Processes set up for the purpose of managing the predictability of performance, the prevention of unforeseen

losses and the reliability of information.

The Management boards of the business units are responsible for day-to-day operations within these frameworks and yearly draw up operational plans that are approved by the Executive Board.

The framework for business control sets out how responsibility is awarded within SNS REAAL and how this must be accounted for. This framework forms the basis for controlling the (risk) management processes.

The framework for business control does not offer absolute guarantee that risks are excluded. It does not guarantee, for instance, that human error, the deliberate circumvention of control procedures by employees and third parties acting in concert, or the evasion of control mechanisms by management will not occur.

SNS REAAL has set up a procedure to assess on a semi-annual basis to what extent the Management boards of each business unit control essential risks. This particularly concerns the discussions between the layers of management on the risks in the business operations and the measures taken to address such risks. The periodic in-control statements per business unit are the key input for this procedure.

Framework for business control

Assigning accountability

• Strategic goals and plan • Strategic risk analysis • Executive Board framework • Policy framework	**Strategic** • Executive Board provides direction • Group staff departments develop frameworks • Executive Board authorises • Supervisory Board monitors	• Annual Report • Executive Board risk reports • In Control Statement
• Business plans • Control objectives • Risk analyses	**Tactical** • Management is given overall responsibility and can be held accountable	• Management reports • Quarterly reports business units • Quarterly reports Group Audit • Risk reports • In Control Statement
• Business Balanced Scorecard • Administrative Organisation • Performance and Competence Assessment	**Operational** • Management manages own areas • Staff departments offer support	• Risk analyses • Internal control audits • Credit risk management • Compliance audits • Group Audit reports • Other reports

Rendering accountability

In an in-control statement, the Management boards and members of the Executive Board state, with due observance of changes to internal and external factors, whether they have identified the essential risks and corresponding control measures with a reasonable degree of certainty, what improvements have been made in the (risk) management processes, whether the established control measures operate adequately, whether the provision of information is sufficient and which aspects the relevant business unit intends to improve further. They also assert whether they expect that the risk management system will continue to work adequately.

The Executive Board discusses the in-control statements and assesses whether additional measures need to be taken in order to curtail risks. The reports on the in-control statement are also submitted to the Audit Committee.

18 Financial risk management

18.1 Introduction

This chapter discusses the financial risks that occur within SRLEV NV. These financial risks are mainly insurance risk (section 18.2), market risk (section 18.4), credit risk (section 18.5) and liquidity risk (section 18.6).

The capital position of SRLEV NV is discussed in section 21.3 and the capital adequacy in section 21.4.

The sections start with a definition of the relevant risk, followed by an explanation of how these risks are managed.

18.2 Insurance risk

18.2.1 Life insurance portfolio

The life insurance portfolio contains individual and group insurance policies. Individual insurance policies are sold as policies with cash benefits (traditional policies) and with payment in units (unit-linked insurance policies).

The individual life insurance portfolio mainly consists of term life (including mortgage life) and whole life policies, endowment (including mortgage related) policies, life annuity policies and unit-linked policies. The individual life insurance portfolio focus on the retail markets in the Netherlands.

The Group portfolio consists of both traditional contracts and separate accounts and unit-linked insurance contracts. SRLEV's Group life insurance portfolio focuses on the entire corporate market in the Netherlands.

Content of the life insurance portfolio	Main conditions	Main risks	Policyholders guarantees	Policyholder profit sharing / interest rate
Individual insurance policies in cash				
Savings mortgages	Premium (sum of risk premium, savings premium and cost loadings) is fixed as of the commencement date of the contract. With the exception of the savings mortgage: for which the savings premium is based on the mortgage interest rate. When the mortgage interest rate changes, the savings premium also changes.	Mortality, expenses	Interest rate equal to mortgage interest rate	No
Life annuity		Interest, mortality, expenses	Life annuity is fixed	Interest rate rebate upon one-off payment of single premium
Risk		Mortality, expenses	Total mortality benefit upon death and / or maturity is fixed	Partially company profit sharing
Savings insurance		Interest, mortality, expenses		Partially company profit sharing; partially interest rate rebate; and partially share in surplus interest
Funeral insurance		Interest, mortality, expenses		Partially company profit sharing at payment of single premium: on occasion interest rate rebate
Individual insurance policies in investment units	Variable premium, cost and risk loading fixed	Mortality, expenses	A number of insurance contracts carry a minimum guaranteed return on the maturity date	No
Group insurance policies in cash	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Interest, mortality, expenses	Guaranteed minimum return	Partially sharing in surplus interest; partially interest rate rebate
Group insurance policies in investment units	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Mortality, expenses	A number of insurance contracts carry a minimum guaranteed return on the maturity date	No
Collective separate accounts	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Interest, mortality, expenses	On maturity date of contract the premium can be waived	No

18.2.2 Technical claims and benefits risks for the life insurance portfolio

A life insurance policy entitles the policyholder to a death benefit and/or a benefit if the insured is alive.

The most distinctive risk with respect to life insurance policies is the mortality risk. This risk mainly affects the duration and timing of the payment of the insured cash flows. The mortality risk indicates the death benefit risk of the policyholder dying earlier than expected (mortality risk). In case of an endowment policy, the mortality risk for the insurer is that the policyholder might live longer than expected (longevity risk). The financial impact of the difference between the calculated timing of mortality and the realised mortality can be substantial, particularly with longevity risk.

Other technical claims and benefits risks that affect the life insurance portfolio are risks associated with policyholders' behaviour, such as early surrender risk (the policyholder terminates the policy before the maturity date), conversion to a non-contributory status (the policyholder terminates the regular premium payment before the maturity date) and the risk of disability (the policyholder becomes disabled for work).

In addition, the insurer bears the cost risk if the actual costs turn out to be higher than what is received from the cost of coverage that was imputed into the tariff setting.

18.2.3 Investment risk and interest rate guarantees

With both traditional and unit-linked insurance contracts, the policyholder pays regular premiums and/or a single premium. For traditional policies, the insurer bears the investment risk of its investments as opposite stand for the commitments to policyholders. When a benefit or annuity payment is due, the insurer pays the policyholder a predetermined nominal amount. In contrast, on unit-linked contracts the insurer does not run an investment risk. Indeed, with unit-linked contracts the insured amount is dependent on the value of the funds in which the units have been invested. The policyholder therefore bears the investment risk. To a limited extent, interest rate guarantees were issued for individual unit-linked insurance contracts resulting that the insurer for this kind of products bears an investment risk. In this case, a guaranteed minimum return at maturity applies to the individual unit-linked insurance policies with interest rate guarantee.

In the case of Group insurance policies with separate accounts, it is the contracting party that, in principle, bears the investment risk. The insurer guarantees the payment of the insured benefits. The contracting party is the institution that concluded the contract to insure the pension commitments of its employees with the insurer. However, there should at least be an investment value to cover the provision for actual accrued entitlements. Additional measures may also have been agreed by contract to compensate for investment losses up to a certain amount (e.g. the creation of an additional provision (buffer) in the investment account). The insurer is entitled to limit the investment risk at the moment the additional provisions/buffers are insufficient. If the investment value (including the potentially additional measures agreed by contract) turns out to be insufficient, the remaining shortfall is for the risk of the insurer.

18.2.4 Managing insurance risks in the life insurance portfolio

The insurer pursues active risk management (see also section 18.3 Insurance risk reinsurance).

Developments in the technical claims and benefits risks of mortality and developments in early surrender are investigated annually. The results of this investigation are used for setting prices for new life insurance contracts and for the valuation of the underlying insurance portfolio. Risk diversification in the composition of the life insurance portfolio is another goal.

SRLEV NV periodically reviews the level of longevity-mortality compensation that is inherent in its portfolios. For an adequate assessment of these compensation effects, SRLEV NV monitors the absolute profit/loss development in time of its mortality assumptions for the entire portfolio.

The solvency of the life insurance portfolio is sensitive to changes in the parameters used for the actuarial calculations. To gain insight into this sensitivity the effects of changes in mortality, surrender probabilities (including non-contributory) and (continuous) costs are calculated separately.

The solvency's sensitivity to changes in the technical parameters is fairly limited in comparison with previous years, except for the sensitivity to the longevity risk. The sensitivity to the risks of surrender, including non-contributory continuation, and mortality risk is strongly mitigated by the surrender floor restriction in the adequacy test.

Sensitivity solvency as a result of changes in technical parameters

In percentages	2013	2012
Solvency ratio	187%	211%
Impact of the sensitivities:		
- 50% increase in surrender rates	(2%)	(4%)
- 15% higher mortality rates (short-life risk)	(1%)	(2%)
- 20% lower mortality rates (longevity risk)	(43%)	(36%)
- 10% increase in expenses assumptions + 1% higher cost inflation	(19%)	(20%)

Changes in the actuarial parameters have an effect on the result of the insurer. The sensitivity of the solvency of SRLEV NV to changes in the financial markets is explained in Chapter 21 Capital management.

Life expectancies

As from 2012, SRLEV uses the model published by the Netherlands Actuarial Association (AG 2012) to forecast the survival probabilities of the entire population. SRLEV annually updates the empirical data for portfolio mortality, lapse and early surrender based on research on actual observed mortality and decline within the portfolio of the life insurer.

18.2.5 Other insurance risks of Life insurance

Concentration of risk

In life insurance, concentration of risks mainly exists in the Group insurance portfolio. Participants in a group contract often work at the same location or undertake joint activities, which brings about a concentration of risks.

Such concentration of risks was partly offset by the use of reinsurance. For more information, please refer to section 18.3 Insurance risk reinsurance.

Scope of various insurance categories 2013

In € millions	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	373	19,685	6	5,558	13,663
Life annuity	1		476	3,480	298
Risk	170	45,443	10	426	46,999
Savings insurance	126	9,082	14	6,012	2,631
Funeral insurance	27	1,653		724	1,225
Individual insurance policies in cash	**697**	**75,863**	**506**	**16,200**	**64,816**
Individual insurance policies in investment units	532	35,161	418	6,152	31,053
Group insurance policies in cash	288	12,770	2,030	8,150	28,229
Group insurance policies in investment units	508	27,041	875	7,792	28,278
Subtotal	**2,025**	**150,835**	**3,829**	**38,294**	**152,376**
Reinsurance risk	(3)	(75)	(5)		(73)
Proportional reinsurance	(159)	(6,184)		(3,863)	(72,169)
Total	**1,863**	**144,576**	**3,824**	**34,431**	**80,134**

Scope of various insurance categories 2012

In € millions	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	387	20,556	6	5,375	14,517
Life annuity	1	-	521	3,978	320
Risk	168	42,435	11	403	44,080
Savings insurance	154	10,244	49	6,758	3,118
Funeral insurance	28	1,696		712	1,284
Individual insurance policies in cash	**738**	**74,931**	**587**	**17,226**	**63,319**
Individual insurance policies in investment units	557	36,403	489	6,317	37,410
Group insurance policies in cash	300	11,805	2,020	7,174	27,990
Group insurance policies in investment units	542	27,483	926	7,359	29,728
Subtotal	**2,137**	**150,622**	**4,022**	**38,076**	**158,447**
Reinsurance risk	(6)	(75)	(5)	-	(1,734)
Proportional reinsurance	(143)	(4,589)		(3,021)	(70,824)
Total	**1,988**	**145,958**	**4,017**	**35,055**	**85,889**

Co-insurance

SRLEV NV concluded a number of co-insurance contracts with one or more other insurers. In general, risk assessments are based on the information provided by the administrating company. In the event of co-insurance, each co-insurer is liable for its own part of the insurance. If a co-insurer withdraws, its insurance liabilities will be transferred to the remaining co-insurers. The total size of the provision for incoming co-insurance amounts to € 108 million (2012: € 127 million). In view of the limited interest and the spread over several insurers, the risk is limited.

18.3 Insurance risk reinsurance

18.3.1 Reinsurance policy

The reinsurance policy provides protection against technical claims and benefits risks in the various insurance portfolios of both the Life and Non-life insurer.

Reinsurance is within SRLEV NV applied for risk (traditional reinsurance) and capital management purposes. Traditional reinsurance is then mainly used to safeguard the result. The capital oriented reinsurance solutions have the objective to optimise the capital position of the insurer. The reinsurance policy covers both aspects.

The reinsurance policy is determined based on risk analyses for the various portfolios, the size of the portfolios, the nature of the technical claims and benefits risks, the results, the risk aversion and the financial strength of the company.

The risk of terrorism is reinsured through the Netherlands Terrorism Risk Reinsurance Company (NHT). In order to align the cover in the policy and the reinsurance cover through the NHT, the cover for the terrorism risk in the policy has been limited to the maximum capacity of the NHT, i.e. € 1 billion.

18.3.2 SRLEV Reinsurance

SRLEV NV has a thoroughly integrated reinsurance programme for the mortality and disability portfolio. Just like last year, separate reinsurance contracts were purchased for the individual and group portfolios in 2013. The catastrophe reinsurance contract was concluded group-wide for the various sub-portfolios.

SRLEV NV purchases reinsurance per separate risk from a relatively high level upwards (see table below). In view of the risk profile and the size of the portfolio, the retention of both the mortality and disability risks can be considered to be in accordance with the underlying portfolio.

The structure of the 2013 reinsurance programme has not changed as compared to the 2012 programme. The various sub-portfolios are reinsured by means of reinsurance contracts for the individual portfolio, for the group portfolio and for the catastrophe risk. Furthermore, a reinsurance contract is in place for the disability portfolio. The retention of the mortality reinsurance contract of the individual life portfolio of SRLEV has been proportionally reinsured by two quota share contracts. The retention of reinsurance contracts for mortality and disability both for individual as for collective risk amount € 1.5 million of risk capital.

As mentioned here above there are two quota share reinsurance contracts in place for SRLEV's individual life portfolio. The quota share reinsurance contract on risk capital concluded as of October 2009 is in force for the product groups risk, offset mortgages and unit-linked policies. The quota share reinsurance contract that took effect as of 1 January 2011 reinsures both risk capital and provisions, and applies to the traditional savings portfolio. As of 1 January 2013, both quota share contracts were adjusted to further optimise the equity situation. The reinsurance percentage has been increased compared to 2012. The solvency trigger that applies to the 2011 reinsurance quota share will gradually increase on 1 January 2014 and 2015 and will be back in accordance with the definition and underlying assumptions.

For 2014 there are no modifications in the retention and the capacity of the various contracts.

The life reinsurance contracts and the disability portfolios were concluded at reinsurance companies that have at least an AA- rating (S&P).

Life insurance retention

		2013		2012	
In € thousands		**REAAL Life**	**Zwitserleven**	REAAL Life	Zwitserleven
Coverage:					
Mortality (quota share - risk capital)	per risk; savings mortgages. risk and unit linked portfolio	9%	N/A	19%	N/A
Mortality (quota share - gross)	per risk; savings insurance portfolio	8%	N/A	19%	N/A
Mortality (risk capital)	per risk; individual portfolio	1,500	N/A	1,500	N/A
Mortality (risk capital)	per risk; group portfolio	N/A	1,500	N/A	1,200
Disability (risk capital)	per risk; individual portfolio	1,500	N/A	1,500	N/A
Disability (risk capital)	per risk; group portfolio	N/A	1,500	N/A	1,200
Catastrophe	per event	15,000	2,000	15,000	2,000

18.4 Market risk SRLEV

The market risk of SRLEV NV arises when the financial markets change, the value changes of investments (equities, real estate, fixed-income investments) do not run parallel with the liabilities. This means that changes in financial markets affect the results and capital position of the insurer. The table below presents the investments based on the book value, in respect of which SRLEV NV run a market risk.

Portfolio SRLEV

In € millions	2013	2012
Property investments	268	233
Interest bearing investments	27,307	28,215
Equities and options	924	1,198
Derivatives	590	479
Reinsurance contracts	3,863	3,021
Mortgages	2,853	3,068
Loans and advances to banks	362	452
Other assets, no lending operations	1,318	3,266
Cash and cash equivalents	1,020	1,541
Total	**38,505**	**41,473**

18.4.1 Risk management market risk

A major milestone in 2013 was the further fine-tuning of the insurer's risk management organisation. As a result, roles and responsibilities have been more clearly defined and segregated where necessary. The market risks are measured and managed by the Insurance Risk Management (IRM) department. Within this department, ALM Risk Insurance is responsible for the drawing and the monitoring of the policy and frameworks for the management of the market risk; Risk Reporting Insurance is responsible for periodic and ad hoc market risk reports. IRM reports monthly to the Group ALCO through the Asset & Liability Committee Insurance.

Besides the fine-tuning of the risk management organisation, further steps were taken towards Solvency II and the Theoretical Solvency Criterion (TSC) in the form of an internal quarterly report. In addition, considerable progress was made in 2013 with the further development of the internal ALM tooling and the implementation of an external scenario generator. This improved tooling contributes positively to market risk management.

The point of departure for the ALM policy is the ALM plan, which is drawn up annually and sets out the strategic investment policy. The ALM plan seeks a balance between risk and return within the preconditions that apply with regard to solvency, Value-at-Risk (VaR), laws and regulations. The ALM study was performed at the end of 2013. Simultaneously with the execution of this ALM study, specific investment measures were translated into the Investment Plan, which will be detailed further in 2014.

The table below indicates how the investments of SRLEV NV are divided as a result of ALM policy at year-end 2013:

Investment mix SRLEV

In € millions	2013		2012	
Interest bearing investments	27,307	87%	28,215	86%
Equities and options	924	3%	1,198	4%
Property	268	1%	233	1%
Mortgages	2,853	9%	3,068	9%
Total	**31,352**	**100%**	**32,714**	**100%**

As a result of the introduction of the Ultimate Forward Rate (UFR) method in 2012, a dilemma has arisen between steering towards statutory solvency and steering towards economic value. The focus of the insurer is on economic value, while stabilisation of the statutory solvency is a supplementary condition. For this reason, there are two main variables towards which we steer: Value at Risk (VaR) and Solvency at Risk (Solar). Under the current circumstances, the Solvency at Risk is guiding and the focus on VaR results is only limited.

VaR system

Value-at-Risk (VaR) models are used for managing the economic value of the financial market risks. The VAR system is applied at REAAL NV level. VaR is a risk indicator that measures the balance of all market risks (interest rate, equity, etc.) under a set of economic scenarios. Within that framework in 2013, advanced steps were taken towards the implementation of an external scenario generator, which can generate more representative scenario sets to measure economic market risk. Major improvements are in the area of yield curve modelling, more specifically a richer variation of scenarios (more extreme shifts and twists) and the introduction of basis risk (separate modelling of investments and liabilities). As indicated in the previous section, we steered towards VaR results only to a limited extent in 2013. In 2014, the VaR standard must be assigned renewed importance in management control.

Solvency at Risk

In practice, the most important control variable is the Solvency at Risk by which the sensitivity of DNB capital is calculated from a combination of market risks scenarios. The Solvency at Risk is also applied at REAAL NV level. The internal limit for this standard is a solvency after stress of 125%. At year-end 2013, the solvency of REAAL NV after stress was 114% based on a -58% stress shock. As a result of the decreased solvency before stress (see section 21.3), the solvency after stress fell below the internal limit of 125%. On balance, the stress shock remained unchanged compared to year-end 2012. The size of the stress equity shock decreased limitedly as a result of a more accurate classification on an economic basis, whereas the stress credit spread shock increased limitedly on the back of France's downgrade.

18.4.2 Interest rate risk SRLEV

Interest rate risk is a key component of SRLEV's market risk profile. There is an interest rate risk when the interest rate sensitivities of the assets and liabilities are not completely equal and it is expressed as movements in the result and/or capital position if market rates change. Moreover the expected fixed cash flows from insurance obligations are matched with fixed-income investments as much as possible. The profit sharing and return guarantees given to policyholders are an additional source of interest rate risk. This risk is partly mitigated by the use of interest rate derivatives to hedge the guarantees in traditional life insurance with guarantees and profit sharing. See section 19.2 Hedging and hedge accounting for more information.

The table below shows the breakdown of the provision for own account by profit sharing type.

Breakdown provision for own account and risk

In € millions	2013	2012
With profit sharing (company or surplus interest)	10,142	10,127
With interest rate rebate	3,554	5,194
Without profit sharing	5,095	3,700
Savings mortgages balance	1,696	2,358
Total	**20,487**	**21,379**

Equity duration

Equity duration indicates the impact on the fair value of shareholders' equity in the event of a minor parallel shift in the yield curve. Market rate movements rapidly change both the value and the interest rate sensitivity of the return guarantees given to customers. Due to the leverage on the balance sheet a small mismatch with the investments that these guarantees are intended to hedge is amplified in equity. This makes the duration of equity extremely volatile and hard to interpret, which is why it was decided not to steer on the basis of this indicator.

The actual interest rate management (and accompanying hedging policy) is driven by the results of the sensitivity calculations related to economic value and solvency. These analyses take account of the yield sensitivity of liabilities and investments for specific key rate durations (sensitivities per maturity segment). The table below reflects the duration of fixed-income investments and the provision for insurance contracts on an economic basis (without UFR and surrender floor). In the second quarter of 2013, a new market risk tool was used in operations. For a proper basis for comparison, the figures at year-end of 2012 were recalculated.

Duration fixed income assets and liabilities SRLEV

	2013	2012
Duration of fixed income investments	9.0	10.4
Duration of provision for insurance contracts	13.0	15.7

Due to the impact of regulatory UFR and the surrender floor, the duration of the provision for insurance contracts is considerably lower on a statutory Solvency 1 basis and the duration mismatch between investments and liabilities is smaller. In the course of 2013, moreover, the interest rate sensitivity of liabilities dropped substantially on the back of a combination of model changes, method changes and improved insight into sensitivities (see section 21.5 Market sensitivity regulatory solvency ratio). In response, investment duration was shortened in the third quarter.

Interest rate sensitivity fair value shareholders' equity (net of taxation)
In economic reality, all balance sheet items (both assets and liabilities) with an underlying cash flow schedule change in value when the interest rate changes. The table below reflects the interest rate sensitivity of investments and technical provisions on an economic basis (without UFR and surrender floor). With a 1% decrease in interest rates, the fair value of shareholders' equity decreases by € 431 million (2012: decrease of € 596 million). With a 1% interest rate increase, the fair value of shareholders' equity increases by € 151 million (2012: increase of € 153 million).

Interest rate sensitivity fair value shareholders' equity SRLEV

	Interest +1%		Interest -1%	
In € millions	**2013**	2012	**2013**	2012
Investments	(1,482)	(1,738)	1,753	1,968
Technical provisions	1,520	1,827	(2,111)	(2,565)
Other assets and liabilities	10	18	(10)	(17)
Derivatives	103	46	(63)	18
Shareholders' equity	**151**	**153**	**(431)**	**(596)**

The interest rate sensitivity of liabilities dropped in 2013 (see section 21.5 Market sensitivity regulatory solvency ratio). In response, it was decided to also shorten the duration of investments. The decreased interest rate sensitivity of liabilities as well as investments is reflected in the table above. With the introduction of the UFR, a dilemma has arisen between steering towards economic value and steering towards statutory solvency. As we steered mainly towards lowering the interest rate sensitivity of statutory solvency, the sensitivity of the fair value of shareholders' equity remained unabatedly high as a result. Only with non-linear instruments (e.g. swaptions), the two sensitivities can be lowered simultaneously. For this reason, additional payer swaptions were acquired in 2013. However, the price to be paid in the form of option premium is so high that it was decided not to fully close the gap that had arisen between the sensitivities of statutory solvency and economic value. This means that the sensitivity of the fair value of shareholders' equity remained unabatedly high and asymmetrical in 2013, as shown in the table above.

Interest rate sensitivity IFRS result and shareholders' equity
SRLEV NV uses Solvency at Risk for managing the sensitivity of market conditions, such as interest rates, on the solvency of the Insurance activities. The Solvency at Risk is based on the reported regulatory available solvency. This method is chosen because solvency is the principal factor in managing market risks. In addition, the development of the solvency ratio provides an improved insight into the exposure to market risks in comparison to the development of IFRS results and shareholders' equity. The development of the IFRS result and shareholders' equity and result is a consequence of accounting principles which are partly based on fair value and partly based on amortised costs. The surrender floor, which IFRS does not recognise, is the main reason for the difference between the Solvency at Risk sensitivity and the sensitivity in IFRS shareholders' equity. Due to the shortfall in the IFRS liability adequacy test, the IFRS result is more sensitive for changes in interest rates.

More details on the Solvency at Risk sensitivity analysis can be found in section 21.5 Market sensitivity regulatory solvency ratio.

Average effective interest rates

The overview below shows the average effective interest rates of the financial assets, the financial liabilities and the technical provisions of SRLEV NV as at the balance sheet date.

Average effective interest rates SRLEV

In percentages	2013	2012
Financial assets (not valued at fair value through profit or loss):		
Investments for own account:		
- Available for sale (excluding equities)	3.8%	4.4%
- Loans and receivables	4.3%	4.3%
Mortgages	4.8%	4.9%
Financial liabilities at amortised cost:		
Subordinated debt	8.1%	8.7%
Technical provisions insurance operations for own account and risk:	3.9%	4.0%
Individual insurance policies in cash	3.9%	4.0%
- Savings mortgages	5.1%	5.2%
- Life annuity	3.0%	3.1%
- Other	3.6%	3.7%
Group insurance policies in cash	3.5%	3.6%

The effective interest rates of the technical provisions are before any deferred interest rate rebates.

Insurance policies for account of policyholders

For Insurance policies for which policyholders bear the investment risk, the insurer does not, in principle, bear any risk relating to interest rates, prices, exchange rates or credit. Nevertheless, for some portfolios within this category, the insurer has given a minimum guarantee. As a result, the insurer also bears risks for these contracts regarding interest rates, prices and exchange rates. The value of the guarantees within the ‘for account of policyholders’ portfolio is measured periodically.

Breakdown technical provision on behalf of policyholders

In € millions	2013	2012
Without guarantee	9,851	9,304
With guarantee	4,093	4,372
Total	**13,944**	**13,676**

18.4.3 Credit risk surcharges and market value of bonds

The credit risk of SRLEV NV materialises itself, on the one hand, in the fixed-income investment portfolio, in which corporate and government bonds are sensitive to changes in credit risk surcharges. Growing credit risk surcharges have a negative effect on the market value of underlying bonds.

On the other hand, credit risk surcharges are a source of basis risk in the valuation of insurance obligations. The ECB AAA curve is currently used for discounting the insurance obligations. This curve is composed of the yield curves of the five AAA countries from the eurozone (according to the Fitch rating). A change in the credit risk surcharge of these countries has an immediate effect on the value of the insurance obligations. This leads to volatility in the capital available as the weighting of the ECB AAA countries in the investment portfolio deviates from the weighting in the ECB AAA curve. Following France’s downgrade by Fitch, France has been removed from the ECB AAA curve. As a result, the influence of the Dutch (and to a lesser extent German) sovereigns on the ECB AAA curve increased. The influence of the Dutch (and to a lesser extent German) sovereigns on the investment portfolio was already relatively substantial (overweighting), so that - on balance - the basis risk between ECB AAA investments and the ECB AAA curve, which is relevant for the valuation of the obligations, has decreased. Removing France from the ECB AAA curve was, however, accompanied by an instantaneous loss of solvency (see section 21.3 Capital position - Solvency).

18.4.4 Equity and property investment risk SRLEV

The equity and similar investments of SRLEV NV amounted to € 924 million at year-end 2013 (2012: € 1,198 million).

The IFRS equities classification also includes participations in funds that invest in other types of securities. The ALM policy and the market sensitivities are adjusted accordingly.

SRLEV NV periodically examines the impact of changes in equity markets and property markets on the result and on shareholders' equity. As is the case for the interest rate risk, scenario analyses are used here as well.

The table below shows the indicative results of this analysis at the balance sheet date net of taxation.

Sensitivity equities and property SRLEV

	Result		Shareholders' equity	
In € millions	**2013**	2012	**2013**	2012
Equities +10%	-	-	61	88
Equities -10%	(37)	(70)	(61)	(88)
Property +10%	27	23	20	17
Property -10%	(27)	(23)	(20)	(17)

18.4.5 Exchange rate risk SRLEV

Exchange rate risk is the risk that equity, result or going-concern is threatened as a result of movements in the level or in the volatility of exchange rates. The exchange rate risk of SRLEV NV is caused by a combination of investments and liabilities in foreign currencies that are not perfectly matched.

With respect to the fixed-income investments, the policy of SRLEV NV is to permit only a very limited exchange rate risk. The exchange rate risk on fixed-income investments with a foreign currency denomination is therefore, in principle, hedged completely with currency swaps.

Exchange rate risk also manifests itself in the equity investments of SRLEV NV. This exchange rate risk, after netting the exchange rate risk in other non-fixed-income investments and liabilities, is structurally hedged using forward exchange rate contracts if the net exposure exceeds € 10 million.

The table below gives an indication of the SRLEV's exchange rate position.

Foreign exchange positions SRLEV (net exposure)

	Balance		Hedge derivatives	
In € millions	**2013**	2012	**2013**	2012
US dollar	66	81	(61)	(91)
Pound Sterling	45	44	(45)	(44)
Swiss franc	(79)	(78)	74	77
Australian dollar	(3)	(33)	-	33
Other	5	2	-	-
Total	**34**	**16**	**(32)**	**(25)**

Balance is total of balance debit and credit.

The impact of changes in foreign exchange markets on the result, on shareholders' equity and on solvency are measured periodically using scenario analyses. The table below shows the results of these analyses net of taxation.

Sensitivity foreign exchange rates SRLEV

	Result		Shareholders' equity	
In € millions	**2013**	2012	**2013**	2012
Currencies +10%	-	(1)	-	(1)
Currencies -10%	-	1	-	1

18.5 Credit risk SRLEV

SRLEV NV is exposed to various types of credit risk. The main types are the credit risks in the investment portfolio and in the loan portfolio to intermediaries (counterparty risk). The mortgage loans of SRLEV are well covered and have a relative long duration. As a result of this, the risk profile of the mortgage portfolio of SRLEV is low. See section 17.5 Risk classification for a definition of credit risk.

In the policy documents for the specific credit risk categories, the roles, powers and responsibilities of employees and committees are established, following a successively more senior layer of authorisation.

18.5.1 Management of credit risk within the fixed-income investment portfolio

The credit risk within the interest bearing investment portfolios of SRLEV NV is the risk that an issuer of a bond or a debtor of a private loan can no longer meet its obligations. The strategic scope of the various investment grade categories within the interest bearing portfolio is determined in an ALM context and laid down in mandates with the investment managers. Periodically, Insurance Treasury & Investment Management checks whether investment managers adhere to the mandates and reports on this.

The interest bearing investment portfolios of SRLEV NV have predominantly European and North American debtors. No one represents an interest of more than 5% in the interest bearing investment portfolio with the exception of the German and the Dutch State.

Overview investments SRLEV 2013

In € millions	**Designated as fair value through profit or loss**	**Available for sale**	**Loans and receivables**	**Total**
Shares and similar investments	-	924	-	924
Fixed income investments	415	20,030	6,862	27,307
Total	**415**	**20,954**	**6,862**	**28,231**

Overview investments SRLEV 2012

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Shares and similar investments	-	1,198	-	1,198
Fixed income investments	1,032	20,431	6,752	28,215
Total	**1,032**	**21,629**	**6,752**	**29,413**

The following overview provides a breakdown of the interest bearing investment mix by sector.

Breakdown fixed income portfolio (industry)

In € millions	2013		2012	
Sovereign	15,892	58%	15,955	57%
Financials	3,377	13%	4,905	17%
Investments related to savings mortgages	5,311	19%	5,131	18%
Corporates	1,355	5%	1,277	5%
Mortgage backed securities	1,223	4%	923	3%
Other	149	1%	24	0%
Total	**27,307**	**100%**	**28,215**	**100%**

The following overview provides a breakdown of the interest bearing investment mix (excluding mortgages) across the various rating categories. The strategic mix of the various categories within the fixed-income portfolio is set annually in the ALM investment plan. The category without any rating mainly consists of investments related to savings mortgages.

Breakdown fixed income portfolio (rating)

In € millions	2013		2012	
AAA	16,355	60%	15,915	56%
AA	2,289	8%	2,903	10%
A	1,883	7%	2,078	7%
BBB	1,066	4%	1,284	5%
< BBB	74	0%	160	1%
No rating	5,640	21%	5,875	21%
Total	**27,307**	**100%**	**28,215**	**100%**

The interest bearing portfolio is composed of 75% of A or higher rating (year-end 2012: 73%) and 60% of AAA rating (year-end 2012: 56%).

The table below contains the breakdown of the interest bearing investment portfolio by maturity.

Breakdown fixed income portfolio (maturity)

In € millions	2013		2012	
< 3 months	120	0%	908	3%
> 3 months - < 1 year	982	4%	804	3%
> 1 year - < 3 years	1,912	7%	1,968	7%
> 3 years - < 5 years	2,268	8%	2,019	7%
> 5 years - < 10 years	4,990	18%	4,556	16%
> 10 years - < 15 years	5,176	19%	3,815	14%
> 15 years	11,859	44%	14,145	50%
No maturity	-	0%	-	0%
Total	**27,307**	**100%**	**28,215**	**100%**

The table below contains the breakdown of the interest bearing investment portfolio by geographic area.

Breakdown fixed income portfolio insurance activities (geography)

In € millions	2013		2012	
Ireland	422	2%	223	1%
Italy	399	1%	456	2%
Spain	364	1%	340	1%
Subtotal GIIPS	**1,185**	**4%**	**1,019**	**4%**
Germany	8,518	31%	9,634	34%
France	977	4%	1,468	5%
The Netherlands	13,244	49%	12,225	43%
Austria	845	3%	851	3%
Belgium	300	1%	308	1%
Other	2,238	8%	2,710	10%
Total	**27,307**	**100%**	**28,215**	**100%**

The category “other” contains European and other international institutions that cannot be allocated to a single country.

The following table shows the breakdown of interest-bearing government securities, which are part of the investment portfolio of SRLEV NV.

Breakdown sovereign fixed income portfolio SRLEV (for own account)

In € millions	2013		2012	
Ireland	56	0%	-	0%
Italy	339	3%	338	2%
Spain	74	0%	43	0%
Subtotal GIIPS	**469**	**3%**	**381**	**2%**
Germany	8,054	51%	9,060	57%
France	715	4%	979	6%
The Netherlands	5,180	33%	3,983	25%
Austria	823	5%	851	5%
Belgium	273	2%	287	2%
Other	378	2%	414	3%
Total	**15,892**	**100%**	**15,955**	**100%**

The credit risk in the government bond portfolio hardly changed. The largest movements occurred between countries with an AA rating. A reduction of the position in German and French government bonds has taken place and this is primarily reinvested in Dutch government bonds. The exposure to government bonds from peripheral Euro countries was limited to € 469 million, 3% of the total exposure on government bonds. There is no exposure on Greece and Portugal. The great majority of the Insurance activities’ position in sovereign debts still concerns Germany and the Netherlands.

The following table shows the further breakdown of interest-bearing government securities to GIIPS countries.

Breakdown sovereign fixed income portfolio GIIPS (maturity)

	Fair value		Nominal	
In € millions	**2013**	**2012**	2013	2012
< 3 months	-	2	-	2
> 3 months - < 1 year	1	1	1	1
> 1 year - < 3 years	5	3	4	3
> 3 years - < 5 years	-	35	-	40
> 5 years - < 10 years	77	87	75	111
> 10 years - < 15 years	57	19	54	40
> 15 years	329	234	295	578
No maturity	-	-	-	-
Total	**469**	**381**	**429**	**775**

18.5.2 Management of credit risk with regard to derivative positions

The credit risk on the market value of the derivatives held by SRLEV NV with a counterparty is managed through a so-called Credit Support Annex, or CSA, agreement. CSA's are in place with the majority of counterparties, for most of which collateral is exchanged on a daily basis. In accordance with standard industry practice, this agreement provides that the underlying value of the derivatives must be posted as collateral in liquid instruments, such as cash and government bonds, to cover the credit risk. See also section 19.2 Hedging and hedge accounting, which describes how derivatives are used for hedging purposes.

18.5.3 Management of other credit risks

Management of credit risk relating to advances to the reinsurer

For reinsurance contracts, SRLEV NV uses a panel that consists of reinsurers with a credit rating. The general guideline gives a minimum rating of A-. This guideline is applied to property (Fire and Catastrophe). In principle, the A- minimum also applies to casualty (Motor Vehicles, General Liability and Accidents) and Life and Disability, but given the long-term nature of the underlying business the current casualty panel consists of companies with at least A+ rating and the panel for Life and Disability of AA- companies.

Additionally, the credit risk of the Life reinsurance quota share that took effect on 1 January 2011 is minimised by collateral on the reinsured provisions.

Management of credit risk in the mortgage portfolio

SRLEV NV runs a limited credit risk on their mortgage portfolio. Part of this portfolio is guaranteed by the National Mortgage Guarantee fund (NHG). The property price increases in the past have led to a strong increase in the foreclosure value of the collateral. Since a large part of the portfolio dates from the period 2000-2005, the recent decline is smaller than prior price rises. In the event of non-payment by a debtor, the insurer will in many cases be able to recoup the loan through the sale of the collateral. Finally, the cautious acceptance policy also contributes to a low credit risk of the mortgage.

Mortgages SRLEV by security type

In € millions	2013	2012
Mortgages < 75% of foreclosure value	1,014	1,162
Mortgages > 75% of foreclosure value	658	729
Mortgages with National Mortgage Guarantee	1,181	1,175
Residential property in the Netherlands:	**2,853**	**3,066**
Corporate mortgages	-	2
Specific provision for bad debts	(7)	(6)
Total	**2,846**	**3,062**

Mortgages are part of the balance sheet item investments in loans and receivables.

The table below shows the arrears in the mortgage portfolio.

Mortgages in arrears SRLEV

In € millions	2013	2012
No arrears	2,793	3,007
< 3 months	38	48
> 3 months	22	13
Provision	(7)	(6)
Total	**2,846**	**3,062**

Mortgages are part of the balance sheet item investments in loans and receivables.

Management of credit risk regarding loans to intermediaries

SRLEV NV manages the process of providing loans to intermediaries by a Credit Committee and the application of strict acceptance criteria.

18.6 Liquidity risk SRLEV

Liquidity risk is the risk that in the short term the entity does not have sufficient cash resources to meet, either under normal conditions or in times of stress, without incurring unacceptable costs or losses, its financial obligations.

The insurer has, based on its business model, an incentive to invest rather than attract funding. The premium income and the direct and indirect return on investment will ensure that the insurance entities finance themselves and meet their obligations to policyholders.

Liquidity risk management

The policy with regard to liquidity risk is based on three considerations:

- The cash position: the cash position can be split into a cash position for the investment circle and a cash position for the operational circle. In the operational circle premiums are collected and payments are made. In the investment circle returns are obtained from investments (viewed from a long-term average) and loan repayments are reinvested. The relationship between the two circles is established through the cash positions and cash flows of both circles. When premiums in the operational circle exceed the benefits paid (and expenses) money is transferred from the operational circle to the investment circle, when the benefits paid (and expenses) in the operational circle surpass premium income, money is withdrawn from the investment circle.
- The liquidity buffer: the second considerations is the liquidity buffer and the investment policy. For liquidity purposes, to create a responsible investment policy in a situation in which withdrawals are greater than premium income a liquidity buffer is maintained as part of the investment portfolio. This liquidity buffer is formed by correcting for the required buffer. The buffer consists of government and corporate bonds, including Asset-Backed Securities. The required buffer is formed by the negative impact on the basis of haircuts on the fair values of the bonds, negative impact of already deposited collateral at counterparties, redemption shock based on Solvency II regulations and transactions utilised liquidity (Quota Share Reinsurance transactions, repurchase agreements, etc.).

- Contingency management: the last line of defence is to absorb where the normal liquidity buffer is insufficient. For this, SNS REAAL has implemented a Crisis Management Team Structure (CMT). The purpose of the CMT is to take timely action in rapidly deteriorating liquidity circumstances to avoid a bankruptcy that in worst case could occur or to settle orderly all obligations of the insurer.

Liquidity risk

The table below presents nominal cash flows arising from investments, derivatives (assets) and insurance obligations, net of reinsurance (liabilities) by maturity segment.

Liquidity risk SRLEV 2013

In € millions	**< 1 year**	**1 - 5 years**	**5 - 10 years**	**10 - 15 years**	**15 - 20 years**	**> 20 years**	**Total**
Investments	2,301	6,102	5,725	4,851	3,450	6,636	29,065
Derivatives	2	6	(78)	26	(273)	585	268
Loans and advances to customers	817	963	1,504	291	169	270	4,014
Total	**3,120**	**7,071**	**7,151**	**5,168**	**3,346**	**7,491**	**33,347**
Technical provisions Life	2,050	4,294	4,872	4,486	3,799	11,481	30,982
Total	**2,050**	**4,294**	**4,872**	**4,486**	**3,799**	**11,481**	**30,982**
Difference in expected cash flows	**1,070**	**2,777**	**2,279**	**682**	**(453)**	**(3,990)**	**2,365**

Liquidity risk SRLEV 2012

In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Investments	2,072	5,602	5,353	4,404	4,828	9,347	31,606
Derivatives	37	152	177	46	58	289	759
Loans and advances to customers	266	647	977	239	91	100	2,319
Total	**2,375**	**6,401**	**6,507**	**4,689**	**4,976**	**9,736**	**34,684**
Technical provisions Life	2,237	4,386	4,779	4,413	3,765	12,212	31,792
Total	**2,237**	**4,386**	**4,779**	**4,413**	**3,765**	**12,212**	**31,792**
Difference in expected cash flows	**138**	**2,015**	**1,728**	**276**	**1,211**	**(2,476)**	**2,892**

The table only includes the ‘for own account portfolio’. The portfolio on behalf of policyholders is not relevant in this context, since the premiums accumulated in the investment funds are paid to the policyholders at the maturity date. The accrued balances of savings policies and savings mortgages are also not taken into account as these are perfectly matched. The cash flows from investments presented in the table include interest flows. The cash flows arising from the technical provisions are estimated on a best-estimate basis. Assumptions are made of mortality, disability, surrender and costs. A change in assumptions can alter the view of the cash flows in the table.

The cash flows do not include future profit sharing. Equity and other non-fixed income investments are not included in the table.

Margin requirement

SRLEV NV has a potential liquidity risk caused by collateral requirements on derivatives. These collateral obligations relate to the mitigation of credit risk of SRLEV NV with its major counterparties. Under these contracts both parties agreed to periodically deposit collateral for an amount equal to the fair value of outstanding derivatives at the party with a net positive market position. As a result there may be both amounts received and amounts paid. On balance, an amount of € 456 million (2012: € 438 million) was received from counterparties as at year-end 2013.

19 Financial instruments and hedge accounting

19.1 Financial instruments

19.1.1 Fair value accounting of financial assets and liabilities

The following table shows the fair value of the financial assets and liabilities of SRLEV NV. In a number of fair value measurements, estimates are used. This table only includes financial assets and liabilities. Balance sheet items that do not meet the definition of a financial asset or liability are not included. The total of the fair value presented below does not reflect the underlying value of SRLEV NV and should therefore not be interpreted as such.

Value of financial assets and liabilities SRLEV

	Fair value	Book value	Fair value	Book value
In € millions	2013	2013	2012	2012
Financial assets				
Investments				
- Fair value through profit or loss: designated	415	415	1,032	1,032
- Available for sale	20,954	20,954	21,629	21,629
- Loans and receivables	6,902	6,862	6,915	6,752
- Mortgages	3,098	2,853	3,063	3,068
Investments for account of policyholders	13,491	13,491	13,265	13,265
Derivatives	590	590	479	479
Loans and advances to banks	362	362	452	452
Other assets	560	560	1,458	1,458
Cash and cash equivalents	1,020	1,020	1,541	1,541
Total financial assets	**47,392**	**47,107**	**49,834**	**49,676**
Financial liabilities				
Subordinated debt	674	652	621	677
Derivatives	123	123	81	81
Liabilities related to collateral and receivables	4,880	4,880	4,061	4,061
Amounts due to banks	1,942	1,942	2,994	2,994
Other liabilities	1,622	1,622	2,444	2,444
Total financial liabilities	**9,241**	**9,219**	**10,201**	**10,257**

The fair values represent the amounts at which the financial instruments could have been traded between market participants in an orderly transaction. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If actively quoted market prices are not available, various valuation techniques are used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and various assumptions are used, for instance for the discount rate and the timing and size of expected future cash flows. To the extent possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. The main assumptions per balance sheet category are explained in the section below.

For financial assets and liabilities valued at amortised cost, the fair value is shown excluding accrued interest. Accrued interest related to these instruments is recorded in other assets or other liabilities.

19.1.2 Notes to the valuation of financial assets and liabilities

The following methods and assumptions are used to determine the fair value of the financial instruments.

Investments

The fair values of equities are based on quoted prices in an active market or other available market data. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or – in the event that actively quoted market prices are not available – on the present value of expected future cash flows. These present values are based on the relevant market interest rate, taking into consideration the liquidity, creditworthiness and maturity of the relevant investment.

Mortgages

The market value of mortgages is determined based on a present value method. The yield curve used to determine the present value of cash flows of mortgage loans is the swap rate, increased by a risk surcharge. This risk surcharge can vary by sub-portfolio. In determining the expected cash flows, any expected future early redemptions are taken into account.

Derivatives

The fair values of nearly all derivatives are based on observable market information, such as market rates and foreign exchange rates. For a number of non-publicly traded derivatives the fair value depends on the type of instrument and is based on a present value model or an option valuation model.

Loans and advances to banks

Given the short-term nature of the loans that are classified as loans and advances to banks, the book value is considered to be a reasonable approximation of the fair value.

Other assets

Because of the predominantly short-term nature of other assets, the book value is considered to be a reasonable approximation of the fair value.

Cash and cash equivalents

The book value of the liquid assets is considered to be a reasonable approximation of the fair value.

Subordinated debt

The fair value of subordinated debt was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding subordinated debt issued by SRLEV, determined by maturity and type of instrument.

Amounts due to banks

The fair value of amounts due to banks is estimated on the basis of the present value of the future cash flows, using the interest rate plus a risk surcharge. The risk surcharge is based on the credit risk assumed by the market for holding such instruments issued by SRLEV, determined by maturity and type of instrument. The carrying amount of any amount that is due up to one month is considered to be a reasonable approximation of the fair value.

Other liabilities

The book value of the other liabilities is considered to be a reasonable approximation of its fair value.

19.1.3 Hierarchy in determining the fair value of financial instruments

A major part of the financial instruments is included in the balance sheet at fair value. In addition, the fair value of the other financial instruments is disclosed. The table below distributes these instruments among level 1 (the fair value is based on published stock prices in an active market), level 2 (the fair value is based on observable market data) and level 3 (the fair value is not solely based on observable market data). The fair value hierarchy classification is not disclosed for financial assets and liabilities that are not measured at fair value where the book value is a reasonable approximation of the fair value. The comparative figures in the table 'hierarchy of financial instruments 2012' only contain the level classification of financial assets and liabilities measured at fair value.

Hierarchy financial instruments 2013

	Book value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at fair value					
Investments fair value through profit or loss: designated	415	348	53	14	415
Investments available for sale	20,954	19,452	854	648	20,954
Investments for account of policyholders	13,491	12,971	109	411	13,491
Derivatives	590	-	590	-	590
Financial assets not measured at fair value					
Mortgages	2,853	-	-	3,098	3,098
Investments loans and advances	6,862	10	6,757	135	6,902
Loans and advances to banks	362	-	-	-	-
Other assets	560	-	-	-	-
Cash and cash equivalents	1,020	-	-	-	-
Financial liabilities measured at fair value					
Derivatives	123	-	123	-	123
Financial liabilities not measured at fair value					
Subordinated debt	652	-	674	-	674
Liabilities related to collateral and receivables	4,880	-	-	-	-
Amounts due to banks	1,942	-	-	-	-
Other liabilities	1,622	-	-	-	-

The table above shows that the instruments categorised within level 3 primarily consists of investments that are available for sale and investments for accounts of policyholders. This indicates that the impact on valuations through profit or loss has been limited.

More detailed explanation of the level classification

For financial instruments measured at fair value on the balance sheet or for which the fair value is disclosed, this fair value is classified into a level. This level depends on the parameters used to determine fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair value based on published stock prices in an active market

For all financial instruments in this valuation category, published stock prices are observable from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and bonds, including investment funds for the account of policyholders whose underlying investments are listed.

Level 2 – Fair value based on observable market data

The category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market information. These instruments mostly contain privately negotiated derivatives. This category also includes investments whose prices have been issued by brokers, of which also

is observed that there are inactive markets.
In that case, the available prices are largely supported and validated using market information, including market rates and actual risk surcharges related to different credit ratings and sector classification.

Level 3 – Fair value not based on observable market data
The financial instruments in this category have been individually assessed. The valuation is based on management's best estimate, taking into account the most recently known prices. In many cases analyses prepared by external valuation agencies were used. These analyses used information unavailable to the market, such as assumed default rates belonging to certain ratings.
The level 3 valuations of investments on behalf of policyholders and Level 3 shares are based on quotes from non-liquid markets. The derivatives in level 3 are connected to some mortgage securitisations and is partly dependent on the valuation of the underlying mortgage portfolios and movements in risk spreads.

Hierarchy financial instruments 2012

	Book value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at fair value					
Investments fair value through profit or loss: designated	1,032	78	954	-	1,032
Investments available for sale	21,629	16,494	5,066	69	21,629
Investments for account of policyholders	13,265	5,429	7,837	-	13,265
Derivatives	479	-	479	-	479
Financial liabilities measured at fair value					
Derivatives	81	-	81	-	81

The following table shows the movement in financial instruments measured at fair value and that are categorised within level 3.

Change in level 3 financial instruments

In € millions	Investments for account of policyholders	Fair value through profit and loss: designated	Available for sale	Total
Balance as at 1 January	-	-	69	69
Transfers into level 3	411	14	623	1,048
Realised gains or losses recognised in profit or loss	-	-	-	-
Realised gains or losses recognised in other comprehensive income	-	-	-	-
Unrealised gains or losses recognised in profit or loss	-	-	4	4
Unrealised gains or losses recognised in other comprehensive income	-	-	-	-
Sale/settlements	-	-	-	-
Transfers out level 3	-	-	(48)	(48)
Balance as at 31 December	**411**	**14**	**648**	**1,073**
Total gains and losses included in profit or loss	-	-	-	-

Breakdown level 3 financial instruments

In € millions	2013	2012
Bonds issued by financial institutions	66	-
Collateralised debt obligation	215	28
Collateralised loan obligation	6	41
Shares	375	-
Investments for account of policyholders	411	-
Total	**1,073**	**69**

The fair value of financial instruments categorised within level 3 is partly based on inputs which are not observable in the market. The fair values of CDOs and CLOs classified within level 3 are determined by calculating scenarios with the use of best estimates of the data which are not observable in the market. The main non-observable data are the expected development of defaults in the underlying portfolios and the implied discount rate. When assuming a stress scenario, with for instance a (higher) assumed principal loss, this would result in a significant decrease of the fair value of the instrument.

Impairments and reversals on financial instruments by category

	Level 1		Level 2		Level 3		Total	
In € millions	2013	2012	2013	2012	2013	2012	2013	2012
Equities	2	9	-	13	5	-	7	22
Bonds	-	-	6	3	-	4	6	7
Total	**2**	**9**	**6**	**16**	**5**	**4**	**13**	**29**

SRLEV NV recognises impairments on equity instruments if the fair value has declined to 25% or more below cost price, or has been quoted below cost price uninterruptedly for at least nine months.

SRLEV NV recognises impairments on financial instruments if there is a loss event with regard to the financial instrument. To identify this, the financial instruments are periodically assessed on the basis of a number of criteria set by the Financial Committee. Financial instruments meeting one or more of those criteria are analysed and assessed individually to determine whether there is a loss event.

The table below shows the reclassification between the levels of the financial assets and liabilities measured at fair value.

Transfers between categories 2013

In € millions	to Level 1	to Level 2	to Level 3	Total
From:				
Based on published stock prices in an active market (Level 1)	-	-	-	-
Based on observable market data (Level 2)	11,152	-	1,048	12,200
Not based on observable market data (Level 3)	-	48	-	48

Reclassifications between levels 1, 2 and 3

The process to determine the categorisation within the fair value hierarchy has been further refined in 2013. In the new methodology is not only assessed whether the financial instrument is listed, but also the specific terms of the instrument, the source of the published quotes and / or the liquidity of the market is taken into account. This has mainly resulted in a shift of investments from level 2 to level 1, due to investment funds on behalf of policyholders, of which the fund itself is not listed, but the underlying investments are.

More specifically, this has led to the following shifts between levels.

Transfers between level 3 and 2
At the end of 2013 an amount of € 48 million has been transferred from level 3 to level 2. This amount relates to collateralised debt obligations and collateralised loan obligations.

Transfers between level 2 and 3
At the end of 2013 an amount of € 1,048 million has been transferred from level 2 to level 3. This includes € 14 million in investments at fair value through profit or loss, € 623 million investments available for sale and € 411 million investments for accounts of policyholders.

Transfers between level 2 and 1
At the end of 2013 an amount of € 11,152 million has been transferred from level 2 to level 1. This includes € 342 million in investments through profit or loss, € 3,139 million investments available for sale and € 7,671 million investments for account of policyholders of which the fund itself is not listed, but the underlying investments are.

19.1.4 Offsetting of financial assets and liabilities SRLEV

The table below presents the financial assets and liabilities that are subject to offsetting. In addition, it includes the related amounts not set off but that do serve to mitigate the credit risk.

Financial assets and liabilities SRLEV 2013

				Related amounts not set off in the balance sheet value			
In € millions	**Gross recognised balance sheet value**	**Offsetting balance sheet value**	**Net balance sheet value**	**Financial instruments**	**Cash collateral**	**Other financial collateral**	**Net value**
Financial assets							
Derivatives	590	-	590	86	346	139	19
Total financial assets	**590**	**-**	**590**	**86**	**346**	**139**	**19**
Financial liabilities							
Derivatives	123	-	123	86	-	-	37
Amounts due to banks	1,942	-	1,942	-	-	1,347	595
Total financial liabilities	**2,065**	**-**	**2,065**	**86**	**-**	**1,347**	**632**

Financial assets and liabilities SRLEV 2012

				Related amounts not set off in the balance sheet value			
In € millions	Gross recognised balance sheet value	Offsetting balance sheet value	Net balance sheet value	Financial instruments	Cash collateral	Other financial collateral	Net value
Financial assets							
Derivatives	479	-	479	35	364	80	-
Total financial assets	**479**	**-**	**479**	**35**	**364**	**80**	**-**
Financial liabilities							
Derivatives	81	-	81	35	-	-	46
Amounts due to banks	3,745	-	3,745	-	-	2,447	1,298
Total financial liabilities	**3,826**	**-**	**3,826**	**35**	**-**	**2,447**	**1,344**

19.1.5 Liquidity maturity calendar for financial liabilities

The table below shows the undiscounted cash flows ensuing from the most important financial liabilities, other than derivatives, broken down by contractual maturity date.

Liquidity calendar financial liabilities SRLEV 2013

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debt	-	-	(50)	(202)	(1,595)	(1,847)
Liabilities related to collateral and receivables	(81)	(120)	(1,003)	(1,203)	(1,646)	(4,053)
Amounts due to banks	(982)	(960)	-	-	-	(1,942)
Total	**(1,063)**	**(1,080)**	**(1,053)**	**(1,405)**	**(3,241)**	**(7,842)**

Liquidity calendar financial liabilities SRLEV 2012

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Subordinated debt	-	-	(51)	(202)	(1,650)	(1,903)
Liabilities related to collateral and receivables	(71)	(107)	(893)	(1,072)	(1,481)	(3,624)
Amounts due to banks	(1,518)	(1,476)	-	-	-	(2,994)
Total	**(1,589)**	**(1,583)**	**(944)**	**(1,274)**	**(3,131)**	**(8,521)**

The table below shows the undiscounted cash flows ensuing from all derivative financial liabilities, broken down according to maturity date.

Liquidity calendar derivatives SRLEV 2013

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	(12)	(78)	(90)
Currency contracts	-	-	(1)	-	-	(1)
Total	**-**	**-**	**(1)**	**(12)**	**(78)**	**(91)**

Liquidity calendar derivatives SRLEV 2012

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	(5)	(32)	(37)
Currency contracts	-	-	-	-	-	-
Total	**-**	**-**	**-**	**(5)**	**(32)**	**(37)**

For further explanation with regard to the management of the liquidity risk, we refer to section 18.6 Liquidity risk SRLEV.

19.2 Hedging and hedge accounting

SRLEV NV uses various strategies to hedge its interest rate, market and foreign exchange risks. In 2013, this strategy was further refined. Under IFRS, derivatives are measured at fair value in the balance sheet and any changes in the fair value are accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, causing volatility in the results. In these cases, hedge accounting is applied to the extent possible to mitigate the accounting mismatch and volatility.

The nominal amounts of the derivatives used for hedging purposes presented in the table below reflect the degree to which SRLEV NV is active in the relevant markets. Derivatives held for trading purposes are not included in this overview.

Derivatives for hedging purposes SRLEV 2013

	Nominal amount				Fair value	
In € millions	**< 1 year**	**1 - 5 years**	**> 5 years**	**Total**	**Positive**	**Negative**
Interest rate contracts						
- Swaps and FRAs	-	18	895	913	126	(60)
- Options	215	2,111	4,445	6,771	463	(60)
Index contracts						
- Options	-	-	-	-	-	-
Currency contracts						
- Swaps	-	86	-	86	-	(2)
- Forwards	118	-	-	118	1	(1)
Total	**333**	**2,215**	**5,340**	**7,888**	**590**	**(123)**

Derivatives for hedging purposes SRLEV 2012

	Nominal amount				Fair value	
In € millions	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	-	54	1,673	1,727	186	(52)
- Options	510	1,436	2,862	4,808	288	(29)
Index contracts						
- Options	16	-	-	16	1	-
Currency contracts						
- Swaps	-	87	-	87	1	-
- Forwards	112	-	-	112	3	-
Total	**638**	**1,577**	**4,535**	**6,750**	**479**	**(81)**

The nominal amounts show the units of account that relates to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These nominal amounts provide no indication of the size of the cash flows, the market and credit risks relating to the transactions.

19.2.1 Hedging

SRLEV NV uses derivatives to protect the market value of shareholders' equity and regulatory solvency against undesired market developments. Examples of this are:

- hedging interest rate risks arising from return guarantees issued to policyholders;
- hedging interest rate risks arising from obligations to share surplus interest with policyholders;
- hedging interest rate risks arising from the difference in maturities between investments and liabilities; and
- hedging foreign exchange risks on investments and liabilities denominated in foreign currencies.

19.2.2 Hedge accounting

With regard to the majority of the hedge strategies explained above, SRLEV NV applies two types of hedge accounting relationships, fair value hedges and cash flow hedges:

Fair value hedges

Hedging the foreign exchange risk in the equity portfolio

SRLEV NV hedges the foreign exchange risk arising from the equity portfolio using foreign exchange futures contracts.

Hedging the interest rate risk on subordinated debt
SRLEV NV hedges the interest rate risk on the subordinated debt using interest rate swaps.

Cash flow hedges

Hedging the interest rate risk in future reinvestments
SRLEV NV has extended the effective maturity of two investment portfolios using interest rate swaps. Consequently interest income is fixed over a longer period of time. The risk that is hedged is the variability of the interest rate at the time of reinvestment. Interest rate swaps are designated as hedging instruments. At the time of reinvestment (in this case, the end of the maturity of the short-term swap), the long-term swap is sold, and the proceeds are reinvested in fixed-income assets. The characteristics of this reinvestment (maturity, coupon dates) are largely similar to those of the sold swap.

At year-end 2013, 12 of these combinations were outstanding (year-end 2012: 12 combinations). In 2013 no such hedge relationships have been discontinued.

Reinvestment calendar SRLEV (nominal amount)

In € millions	2013	2012
< 1 year	-	-
1 - 5 years	136	136
> 5 years	471	472
Total	**607**	**608**

At year-end 2013, a net positive amount of € 27 million due to positive unrealised market value (2012: € 54 million) has been accumulated in shareholders' equity. This positive market value shall be released to the income statement at the moment of reinvestment as indicated above, over a period that is equal to the remaining maturity of the swap.

No hedge accounting is applied to the equity index options of SRLEV NV, nor is it applied to the swaptions of SRLEV NV.

20 Non-financial risk management

As described in the risk classification, SRLEV NV recognises both financial risks and non-financial risks. Non-financial risks include strategic, integrity and operational risks. The Compliance, Security & Operational Risk Management (CS&O) department is one of the departments involved in monitoring and advising on the management of these non-financial risks. Other departments involved include Business Continuity Management and Information Security.

20.1 Management of non-financial risks

SRLEV NV has taken several measures to manage non-financial risks. The main components are the following:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, reinforced with a clear risk management structure. For this purpose SRLEV NV, as a part of SNS REAAL, implemented the 'three lines of defence' model, where line management is primarily responsible for identifying and managing risks and taking decisions in that area. Along with several other Group staff departments, CS&O has an important oversight function in the second line of defence and shall escalate issues when necessary. The third line of defence is formed by Group Audit, which, independently evaluates the design and operating effectiveness of the entire control and governance framework.
- The SNS REAAL Group policy formulated by CS&O, including the operational risk framework, where ethical business conduct concerning non-financial risks is embedded. If desired, CS&O provides recommendations on the implementation of the policy within the business units and monitors compliance.
- The training & awareness programme to increase the awareness of integrity and non-financial risk management amongst managers and staff. This programme includes information meetings, e-learnings, presentations and 'train the trainer' workshops.
- Staff departments provide advice on the development, evaluation and endorsement of products independently from the line business.
- The central reporting centre where staff can report various kinds of incidents, such as fraud, undesirable behaviour and information security breaches. This aims to have risks reported in time to prevent or reduce the impact of any consequential damage and to take adequate measures to prevent similar incidents. Employees can also report incidents to the reporting centre anonymously (whistleblower procedure).
- Signs of fraud are always investigated. Fraud investigations are risk based, supported by external specialists if necessary.
- The monitoring programme executed annually by CS&O in consultation with Group Audit. Resources are annually allocated to the relevant subjects pursuant to a risk-based analysis.
- The quarterly report on non-financial risks. This quarterly report provides the Management boards, the Executive Board and the Risk Committee within the Supervisory Board with an overview of the high-risk issues and the main developments in non-financial risks. It includes the central embedding of customer interests, progress in the follow-up of action points, the implementation of new/amended laws and regulations, and an analysis of developments in incidents. This report also shows the extent to which SRLEV NV acts in accordance with its risk appetite.
- The periodically in-control statements from the Management boards of the business units and the Executive Board members. In this statement, they report on the main risks and corresponding control measures, improvements made compared to the previous period and the improvement measures that are still in progress. The in-control statement highlights the most substantial risks.

20.2 Capital requirement operational risk

To calculate the capital that must be maintained as a buffer for the manifestation of operational risks, SRLEV NV uses the standardised approach. The adequacy of the insurance capital for operational risk is assessed on the basis of the ORSA. This is futher discussed in section 21.6.

21 Capital management

Capital provides a buffer for the risks involved in the activities of SRLEV NV. The main activities of SRLEV NV are providing insurance products. For the risks resulting from this, there is a certain amount of capital required. To ensure continuity and protect stakeholders, market participants and supervisors set requirements for sufficient capital. SRLEV NV also has internal standards that must be met.

Adjustment intra Group positions

In the second half of 2013, a number of measures have been taken aimed at strengthening the capital position of REAAL NV and reducing the interdependency between SNS Bank NV and REAAL NV. The measures are in line with the commitment to phase out the financial interdependence between the bank and the insurer and have been agreed upon by the Dutch Central Bank.

In this context SRLEV NV intends to provide a credit facility of € 200 million to REAAL NV. This facility was not legally formalised or used as of 31 December 2013, with the agreement signed in March 2014. This facility, if used, will be deducted in phases from the available capital of SRLEV NV. The phasing did not have an impact on the year-end 2013, and the expectation is that the facility will be used for 50% as of the end of 2014 and for 100% as of the end of 2015. The facility is temporary and will be repaid upon sale of the insurer.

Please refer to section 21.3 Capital position – Solvency for more information about the capital position of SRLEV NV.

21.1 Framework and planning of capital management

The insurer performs a solvency sensitivity analysis on a monthly basis, with close involvement of senior management to determine the capital adequacy. Part of this analysis is the control metric Solvency at Risk (see section 18.4.1 Risk Management market). The results are discussed in the ALCO Insurance on a monthly basis.

An annual ORSA test is performed for SRLEV NV (see section 21.6).

21.2 Objectives and framework of standards

SRLEV's solvency is calculated within the Solvency I regulatory framework. The available capital is mainly based on the market value of assets and liabilities, adjusted for intangible assets and increased by subordinated debt. The required capital is related to the size of the technical provision.

The internally targeted Regulatory solvency is at least 175%.

21.3 Capital position – Solvency

Capitalisation

In € millions	2013	2012
Insurance activities		
Regulatory solvency SRLEV NV	187%	211%
Available regulatory capital	2,413	2,830
Capital requirement	1,293	1,344

Regulatory solvency of SRLEV NV amounted to 187% compared to 211% at the end of 2012. Solvency was negatively impacted by the downgrade of France in July 2013 by Fitch, after which French government bonds were excluded from the ECB AAA curve used to calculate regulatory solvency. The subsequent downward shift of the ECB AAA curve had a negative impact on solvency of 31 percentage points. Furthermore, parameter changes, which mainly consisted of adjustments of cost parameters (including the impact of the additional structural cost allocation from the holding company), adjustments of the valuation of mortgages and the use of more prudent mortality tables, an increase in the number of homogeneous portfolios and adjustments in the risk margin used in the solvency calculation had a combined negative impact of 24 percentage points. The negative factors were largely compensated by the development of interest rates, credit spreads and underlying net profit had a positive impact.

The Solvency I ratio after (market)stress is calculated monthly by using shocks on interest rates, credit, equities and real estate. At year-end 2013, the solvency after stress is 129%. Because of the fact that at REAAL NV, the solvency after stress is 114% and also below the internal threshold of 125% at year-end the Executive Board of SNS REAAL decided to analyse the capital position at REAAL NV and insurance subsidiaries under various scenarios and define possible management actions to strengthen and protect it. In this context, a base case projection of the solvency ratio under different capital regimes , amongst other Solvency I and Solvency II, was carried out. Subsequently, the impact on the base case of four stress scenarios was calculated. These scenarios are more severe than the regular monthly market stress calculations. They are severe stress scenarios on underwriting risks (including increased commutation and longevity), market risks and operational risks (profitability). As part of the analysis the recovery capacity in the coming three years has also been examined.

The conclusion is that in severe stress scenarios analysed, the Solvency I ratio at SRLEV NV level remains above 100% for the test period of three years. Solvency II requirements and the interpretation thereof are still in development. The pressure on the capital position under this regime is most evident in the most severe stress scenarios tested. However, based on current insights, the Solvency II ratio shows sufficient recovery under these scenarios.

21.4 Capital adequacy

SRLEV's capital adequacy is evaluated within the Solvency I regulatory framework.

IFRS liability adequacy test (LAT)

The adequacy of the insurance technical provisions is tested in every reporting period by means of the IFRS liability adequacy test (LAT). This LAT compares the market value and the IFRS carrying amount of the insurance liabilities and related assets (including VOBA). In 2012, SRLEV NV changed the interest rate curve used to calculate the market value of the insurance liabilities in the IFRS LAT from the ECB All Government curve to the ECB AAA + UFR curve. This change implied a significantly lower discount rate which negatively impacted the surplus value shown in the IFRS LAT. The use of the ECB AAA + UFR curve and the general decline of interest rates led to an IFRS LAT shortfall in the insurance liabilities in 2012. By using shadow accounting, the positive fair value reserve of the fixed-income portfolio was used to increase the IFRS carrying amount of the insurance liabilities. The remaining shortfall of € 206 million gross (€ 155 million net) was charged to the income statement 2012 as a partial impairment of the VOBA. In 2013, the LAT shortfall decreased compared to year-end 2012 due to an increase in interest rates partly mitigated by adjustments in models and parameters. However the fair value reserve of the fixed-income portfolio decreased even more. As a result, the fair value reserve of the fixed-income portfolio could not fully compensate the LAT shortfall and the remaining shortfall of € 714 million gross (€ 536 million net) was charged to the income statement 2013 at first as an impairment of the remaining VOBA of € 520 million gross (€ 390 million net) and for the remaining shortfall after VOBA impairment by an addition to the technical provision for an amount of € 194 million gross (€ 146 million net).

Regulatory liability adequacy test (TRT)

SRLEV NV includes the excess or deficit in the book value of the technical provisions with respect to the corresponding test provisions in the available solvency. SRLEV NV determines this excess or deficit by performing the regulatory liability adequacy test under the Dutch Financial Supervision Act.

21.5 Market sensitivity regulatory solvency ratio

The management of the sensitivity of the regulatory solvency takes place at REAAL NV level. The sensitivity of regulatory solvency is an internally used measure for risk management. The sensitivity analysis Solvency at Risk is already explained in section 18.4.1 and in section 18.4.2 the interest rate risk of SRLEV NV is disclosed.

The table below shows the sensitivity of regulatory solvency of REAAL NV which is also representative for SRLEV NV. The main risk drivers are interest rates and spread (credit spreads).

Market sensitivity regulatory solvency ratio REAAL NV

In percentages	2013	2012
Interest rates -1%	(3%)	18%
Interest rates +1%	(7%)	(11%)
Credit spreads corporate bonds +0.5%	(11%)	(11%)
Credit spreads sovereign bonds +0.5%	(4%)	(2%)
Equity prices -10%	(1%)	(2%)

For the sensitivity of the underwriting parameters, reference is made to section 18.2.4.

At the end of the second quarter, the interest rate sensitivity of the liabilities dropped substantially due to model changes (switch to Monte Carlo valuations), methodology changes (homogeneous groups, risk margin) and improved insights into sensitivities. This boosted the parallel interest rate sensitivity of regulatory solvency (investments & liabilities) to beyond the internal limit at the end of the second quarter. However, the downgrade of France in mid-July – and its negative impact on the ECB AAA curve – almost immediately resulted in an increase in the sensitivity of the liabilities, causing a decrease in the interest rate sensitivity of the regulatory solvency to fall back to below the internal limit.
Nevertheless, the decision was taken in the third quarter to further reduce the parallel interest rate sensitivity of the regulatory solvency. At year-end 2013, this sensitivity had dropped to 7%-points.

The sensitivity to spread risk increased due to the downgrade of France. Bonds of this country are now part of the non-AAA government bonds for sensitivity analysis purposes. The equity shock decreased limitedly as a result of a more accurate classification on an economic basis.
During 2013 market rate increased by more than 55 basis points. The ECB AAA curve immediately dropped by 15 basis points in July 2013 following the downgrade of France. Overall however, the ECB AAA curve was still at a higher level at year-end 2013 compared to year-end 2012. The UFR impact means that the insurer’s solvency is sensitive to increases in interest rates (see table above), this resulted in a loss of solvency. At the same time, the UFR impact at year-end 2013 was less than at year-end 2012. For the General Account (GA), the impact decreased from approximately 45%-points of solvency to approximately 22%-points. Not only the level of the ECB AAA curve, but also the shape of the curve on the 20 - 30-year maturity segment is relevant in this respect.

21.6 ORSA

The capital adequacy of SRLEV NV according to the Solvency II regulatory framework will be assessed by the Own Risk and Solvency Assessment (ORSA). The ORSA rules have not yet been unequivocally established. In 2013, SRLEV NV performed an ORSA based on the current insights.

21.7 Stress testing

In 2013, the European Insurance and Occupational Pensions Authority (EIOPA) did not request SRLEV NV to take part in its stress test for insurers. SRLEV NV did, however, perform an internal stress test within the context of the ORSA.

The ORSA has a three-year horizon, with stress having been applied to the September 2013 figures. The figures were prepared on a Solvency II basis and consolidated at the SRLEV NV level. Four scenarios were analysed. In two scenarios (adverse and severe) it was assumed that the crisis shall continue, one scenario assuming a higher life expectancy rate than currently used in the calculation of provisions, and one combination scenario.

This internal stress test will be finalised after completion of the ORSA.

22 Notes to the consolidated financial statements

22.1 Intangible assets

Specification intangible assets

In € millions	2013	2012
Software	-	23
Value of Business Acquired (VOBA)	-	556
Total	**-**	**579**

At year-end 2013, internally developed and capitalised software was nil (2012: € 3 million).

Statement of change in intangible assets 2013

In € millions	Goodwill	Software	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	-	49	1,222	-	1,271
Accumulated amortisation and impairments	-	(49)	(1222)	-	(1,271)
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**
Balance as at 1 January	-	23	556	-	579
Purchases	-	-	-	-	-
Depreciation purchases	-	(3)	(36)	-	(39)
Impairments	-	(20)	(520)	-	(540)
Other	-	-	-	-	-
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**

Statement of change in intangible assets 2012

In € millions	Goodwill	Software	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	86	52	1,184	185	1,507
Accumulated amortisation and impairments	(86)	(29)	(628)	(185)	(928)
Balance as at 31 December	**-**	**23**	**556**	**-**	**579**
Balance as at 1 January	85	26	826	152	1,089
Purchases	-	7	-	-	7
Depreciation purchases	-	(6)	(66)	(2)	(74)
Impairments	(85)	-	(206)	(150)	(441)
Other	-	(4)	2	-	(2)
Balance as at 31 December	**-**	**23**	**556**	**-**	**579**

Due to the deficit in the IFRS adequacy test (LAT), the VOBA was fully impaired in 2013 (2012: € 556 million). This LAT compares the market value and the IFRS carrying amount of insurance liabilities and related assets. During 2013 a deficit of € 520 million (2012: € 206 million) was established in the LAT, after release of the revaluation reserve (subcategory: fair value reserve) using shadow accounting. This was the result of several factors, such as the low interest rates and higher life expectancies.

The impairments of software of € 20 million (2012: nil) has been recognised in the income statement as impairment charges. The impairment of VOBA of € 520 million (2012: € 206 million) has been recognised in the income statement as technical claims and benefits.

22.2 Property and equipment

Specification property and equipment

In € millions	2013	2012
Land and buildings in own use	58	122
IT equipment	-	-
Other assets	1	2
Total	**59**	**124**

Statement of change in property and equipment 2013

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	127	1	2	130
Accumulated revaluations	(7)	-	-	(7)
Accumulated amortisation and impairments	(62)	(1)	(1)	(64)
Balance as at 31 December	**58**	**-**	**1**	**59**
Balance as at 1 January	122	-	2	124
Reclassifications	(56)	-	(1)	(57)
Revaluations	(3)	-	-	(3)
Investments	3	-	-	3
Depreciation	(3)	-	-	(3)
Impairments	(5)	-	-	(5)
Balance as at 31 December	**58**	**-**	**1**	**59**

In 2013, a number of buildings that are no longer held for own use have been reclassified for an amount of € 57 million (2012: € 2 million) from land and buildings in own use to investment properties.

At year-end 2013, there were no new office buildings under construction. Furthermore, there were no contractual obligations.

Statement of change in property and equipment 2012

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	152	3	4	159
Accumulated revaluations	(15)	-	-	(15)
Accumulated amortisation and impairments	(15)	(3)	(2)	(20)
Balance as at 31 December	**122**	**-**	**2**	**124**
Balance as at 1 January	136	-	3	139
Reclassifications	(2)	-	-	(2)
Revaluations	(1)	-	-	(1)
Investments	9	-	-	9
Depreciation	(3)	-	(1)	(4)
Impairments	(18)	-	-	(18)
Other	1	-	-	1
Balance as at 31 December	**122**	**-**	**2**	**124**

22.2.1 Valuation of land and buildings in own use

Due to the economic circumstances the land and buildings in own use with a fair value greater than € 1 million are valued annually by an external surveyor as from 2009. The other land and buildings in own use are valued once every three years.

Valuation of land and buildings in own use

	In € millions	Appraised value as % of total book value
2013	58	100%
2012	110	90%
2011	136	100%

22.2.2 Hierarchy in determining the fair value of property and equipment

The table below categorises the property and equipment among level 1 (the fair value is based on published stock prices in an active market), level 2 (the fair value is based on observable market data) and level 3 (the fair value is not based on observable market data).

Hierarchy property and equipment 2013

In € millions	Level 1	Level 2	Level 3	Total
Land and buildings in own use	-	58	-	58

22.3 Investments in associates

Statement of change in associates

In € millions	2013	2012
Balance as at 1 January	40	32
Reclassifications	(25)	-
Disposals and divestments	(15)	-
Share in result of associates	1	10
Dividend received	(1)	(2)
Impairments	-	-
Balance as at 31 December	**-**	**40**

By reducing the stake in Beleggingsfonds Ducatus (€ 15 million), the remaining stake fell below 20%, as a result of which it no longer qualifies as an associate. Hence, an amount of € 25 million was transferred from investments in associates to investments.

Overview most significant investment in associates 2012

In € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Beleggingsfonds Ducatus	NL	35%	40	10	105	-	34
Total			**40**	**10**	**105**	**-**	**34**

22.4 Investment properties

Statement of change in investment properties

In € millions	2013	2012
Balance as at 1 January	233	255
Reclassifications	57	2
Investments	-	2
Divestments	(11)	(5)
Revaluations	(11)	(21)
Balance as at 31 December	**268**	**233**

For properties that are no longer in own use in 2013, an amount of € 57 million (2012: € 2 million) was reclassified from land and buildings in own use to investment properties.

Hierarchy in determining the fair value of investment properties

The table below distributes the investment properties among level 1 (the fair value is based on quoted prices in an active market), level 2 (the fair value is based on available market data) and level 3 (the fair value is not based on observable market data). For a more detailed explanation of the level layout, see section 19.1.3 Hierarchy in determining the fair value of financial instruments.

Hierarchy investment properties

In € millions	Level 1	Level 2	Level 3	Total
Land and buildings used by third parties	-	268	-	268

22.5 Investments

Investments: overview

In € millions	2013	2012
Fair value through profit or loss: Designated	415	1,032
Available for sale	20,954	21,629
Loans and receivables	9,708	9,814
Balance as at 31 December	**31,077**	**32,475**

Part of the investments is lent to third parties. The book value of the lent investments amounts to € 1.4 billion as at 31 December 2013 (2012: € 1.7 billion).

Another part of the investments is pledged as collateral for amounts due to banks (repo's) and subordinated debt (bonds). The book value of assets pledged as collateral at 31 December 2013 amounts to € 5.1 billion (2012: € 5.5 billion).

Listing fair value through profit or loss: designated

	Fixed income	
In € millions	**2013**	2012
Listed	415	1,011
Unlisted	-	21
Total	**415**	**1,032**

Statement of change in fair value through profit or loss: designated

	Shares and similar investments		Fixed income		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	-	-	1,032	1,017	1,032	1,017
Purchases and advances	-	-	497	731	497	731
Disposals and redemptions	-	-	(1,109)	(725)	(1,109)	(725)
Revaluations	-	-	(6)	12	(6)	12
Other	-	-	1	(3)	1	(3)
Balance as at 31 December	**-**	**-**	**415**	**1,032**	**415**	**1,032**

Listing investments available for sale

	Shares and similar investments		Fixed income investments		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Listed	531	736	20,001	20,293	20,532	21,029
Unlisted	393	462	29	138	422	600
Total	**924**	**1,198**	**20,030**	**20,431**	**20,954**	**21,629**

Statement of change in investments available for sale

	Shares and similar investments		Fixed income investments		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	1,198	1,151	20,431	19,130	21,629	20,281
Purchases and advances	326	855	3,966	6,397	4,292	7,252
Disposals and redemptions	(638)	(843)	(3,127)	(6,345)	(3,765)	(7,188)
Revaluations	23	60	(1,200)	1,290	(1,177)	1,350
Impairments	(10)	(25)	(6)	(8)	(16)	(33)
Amortisation	-	-	(36)	(22)	(36)	(22)
Other	25	-	2	(11)	27	(11)
Balance as at 31 December	**924**	**1,198**	**20,030**	**20,431**	**20,954**	**21,629**

An amount of € 25 million classified as other changes relates to the investment in Beleggingsfonds Ducatus, which has been reclassified from investments in associates to investments.

Valuation available for sale

In € millions	2013	2012
Shares and similar investments		
Cost price	821	1,050
Revaluation	103	148
Fixed income investments		
(Amortised) cost price	18,426	17,522
Revaluation	1,172	2,479
Accrued interest	432	430
Balance as at 31 December	**20,954**	**21,629**

Investments: loans and receivables

In € millions	2013	2012
Mortgages	2,853	3,068
Private loans linked to savings mortgages	5,312	5,133
Other private loans	1,550	1,619
Total	**9,715**	**9,820**
Provision for bad debts	(7)	(6)
Total	**9,708**	**9,814**

Statement of change in loans and receivables

In € millions	2013	2012
Balance investments as at 1 January	9,820	9,479
Purchases and advances	942	1,699
Disposals and redemptions	(1,339)	(1,627)
Interest added	284	273
Amortisation	2	1
Other	6	(5)
Balance investments as at 31 December	**9,715**	**9,820**
Balance provisions as at 1 January	(6)	(5)
Addition	(13)	(2)
Withdrawal	12	1
Balance provisions as at 31 December	**(7)**	**(6)**
Total	**9,708**	**9,814**

22.6 Investments for account of policyholders

Investments for account of policyholders include separate deposits for the account and risk of policyholders, investments for unit linked insurances and separate investment deposits for large group pension contracts.

In 2013, contracts worth € 223 million (2012: nil) at Zwitserleven were transferred from 'Investments for account of policyholders' to 'Investments', due to a continuation as non-contributory contracts for own account. The transfers took place in agreement with the customers after expiration of the contracts.

Listing investments for account of policyholders

In € millions	**2013**	2012
Shares and similar investments:		
- Listed	4,392	4,047
- Not listed	7,816	7,467
Fixed income investments		
- Listed	908	1,382
- Not listed	375	369
Total	**13,491**	**13,265**

Statement of change in investments for account of policyholders

In € millions	**2013**	2012
Balance as at 1 January	13,265	12,443
Purchases and advances	1,983	5,050
Disposals and redemptions	(2,174)	(5,487)
Revaluations	427	1,321
Other movements	(10)	(62)
Balance as at 31 December	**13,491**	**13,265**

22.7 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Derivatives held for cash flow hedge accounting	27	54	35	46	(8)	8
Derivatives held for fair value hedge accounting	75	99	-	-	75	99
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	488	326	88	35	400	291
Total	**590**	**479**	**123**	**81**	**467**	**398**

Most derivatives are held to hedge against undesired market risks. This is explained in section 19.2 Hedging and hedge accounting of the chapter on Financial instruments and hedge accounting.

Statement of change in derivatives

In € millions	**2013**	2012
Balance as at 1 January	398	486
Purchases	182	230
Disposals	(131)	(345)
Revaluations	19	27
Exchange rate differences	(1)	-
Balance as at 31 December	**467**	**398**

22.8 Deferred tax assets and liabilities

Specification deferred tax assets and liabilities

In € millions	2013	2012
- Deferred tax assets	661	964
- Deferred tax liabilities	(341)	(869)
Total (liability)	**320**	**95**

Origin of deferred tax assets and tax liabilities 2013

In € millions	1 January	Change through profit or loss	Change through equity	Other movements	31 December
Intangible assets	3	(3)	-	-	-
Value of business acquired	(134)	137	-	-	3
Capitalised acquisition costs Insurance activities	105	(21)	-	-	84
(Investment) property and equipment	(37)	6	1	-	(30)
Investments	(611)	27	333	8	(243)
Derivatives	(33)	9	7	(8)	(25)
Insurance contracts	803	68	(340)	-	531
Provision for employee benefits	-	-	-	-	-
Tax-deductible losses	-	-	-	-	-
Other	(1)	1	-	-	-
Total liabilities	**95**	**224**	**1**	**-**	**320**

Origin of deferred tax assets and tax liabilities 2012

In € millions	1 January	Change through profit or loss	Change through equity	Other movements	31 December
Intangible assets	(22)	25	-	-	3
Value of business acquired	(167)	33	-	-	(134)
Capitalised acquisition costs Insurance activities	134	(29)	-	-	105
(Investment) property and equipment	(44)	7	-	-	(37)
Investments	(353)	8	(266)	-	(611)
Derivatives	(66)	29	4	-	(33)
Insurance contracts	188	62	553	-	803
Provision for employee benefits	47	(40)	-	(7)	-
Tax-deductible losses	1	(1)	-	-	-
Other	(9)	8	-	-	(1)
Total liabilities	**(291)**	**102**	**291**	**(7)**	**95**

Specification tax effect changes equity

In € millions	2013	2012
Change in revaluations reserve	1	-
Changes in cash flow hedge reserve	7	4
Change in fair value reserve	(7)	287
Total liabilities	**1**	**291**

The corporation tax payable and receivable for the years up to and including 2010 is irrevocably determined. The amount of corporation tax recorded by the various subsidiaries pertaining to these years, has not yet been settled with the head of the fiscal unity. The same applies to the corporation tax payable or receivable for the years 2011 through 2013.

22.9 Loans and advances to banks

This item relates to loans and advances to banks, excluding interest-bearing securities, with a remaining maturity longer than three months.

22.10 Other assets

Specification other assets

In € millions	2013	2012
Policyholders	123	71
Intermediaries	97	132
Reinsurers	75	66
Amounts due from direct insurance	**295**	**269**
Accrued interest	19	23
Other accrued assets	(7)	(31)
Accrued assets	**12**	**(8)**
Other advances	253	1,197
Total	**560**	**1,458**

22.11 Cash and cash equivalents

Specification cash and cash equivalents

In € millions	2013	2012
Short-term bank balances	1,020	1,541
Total	**1,020**	**1,541**

This balance sheet item includes an amount of € 344 million (2012: € 325 million) that SRLEV has received as collateral with regard to derivative positions.

22.12 Equity

Specification equity

In € millions	2013	2012
Equity attributable to shareholders	2,687	3,142
Minority interest	1	3
Balance as at 31 December	**2,688**	**3,145**

For further information on total equity, see section 14.4 Consolidated statement of changes in equity.

22.13 Subordinated debt

Specification subordinated debt

In € millions	2013	2012
Bonds	542	565
Private loans	95	95
Final bonus account	15	17
Total	**652**	**677**

22.13.1 Subordinated bonds

Bonds

	Coupon rate	Period	Book value		Nominal Value	
In € millions			2013	2012	2013	2012
SRLEV	9.000%	2011-2041	397	396	400	400
SRLEV (CHF)	7.000%	2011/perpetual	85	87	86	87
Total			**481**	**483**	**486**	**487**
Change in fair value as a result of hedge accounting			61	82	-	-
Total			**542**	**565**	**486**	**487**

In April 2011, SRLEV NV issued subordinated bonds for an amount of € 400 million, with a maturity date in 2041. The terms and conditions are set out in a prospectus dated 12 April 2011. In July 2011, SRLEV NV issued subordinated bonds for an amount of CHF 105 million with a perpetual maturity. The terms and conditions are set out in a prospectus dated 15 July 2011.

The European Commission decided not to allow SRLEV NV to pay the coupon due on these subordinated bonds on the interest payment dates (15 April 2013 and 19 December 2013 respectively). Therefore, SRLEV makes use of its optional deferral right based on condition 4(e) of the terms and conditions not to pay such coupon. This decision confirms the decision of the European Commission of 22 February 2013 in which the State aid measures as a result of the nationalisation of SNS REAAL, the holding company of SRLEV, on 1 February 2013 have been preliminary approved with the provision that a coupon ban applies for those payments that do not stem from a legal obligation. Unpaid interest shall as long as it remains unpaid constitute arrears of interest and shall bear the same rate of interest as is payable on the bonds.

22.13.2 Subordinated private loans

The subordinated private loans have a maturity of longer than five years and have been concluded by group companies. The private loans have an average interest rate of 8.9% (2012: 8.9%).

22.13.3 Subordinated final bonus account

The subordinated final bonus account commitments were entered into by SRLEV and form part of the solvency test in determining the solvency position of SRLEV. The final bonus account is largely of a long term nature.

22.14 Insurance and reinsurance contracts

Specification insurance and reinsurance contracts by type of contract

		Gross		Reinsurance	
In € millions	*Notes*	**2013**	2012	**2013**	2012
Provision for life insurance obligations	*a*	26,216	26,803	3,863	3,021
Unamortised interest rate discounts	*b*	(344)	(400)	-	-
Provision for profit sharing, bonuses and discounts	*c*	90	115	-	-
For own risk		**25,962**	**26,518**	**3,863**	**3,021**
Technical provisions for insurance on behalf of policyholders	*d*	13,765	13,929	-	-
For account of policyholders		**13,765**	**13,929**	**-**	**-**
Total		**39,727**	**40,447**	**3,863**	**3,021**

Insurance contracts are largely of a long term nature.

In 2013 part of the portfolio was transferred from REAAL Life to Zwitserleven.

On 17 November 2010, SNS REAAL reached a final agreement with the Stichting Verliespolis on the compensation scheme. As at 31 December 2013, the provision for life insurance obligations included € 69 million for compensation to unit-linked insurance policyholders (2012: € 329 million). In 2013 an amount of € 289 million of this provision was released as compensation to the policy contracts (€ 137 million) and € 152 million was paid out in cash. In 2013, technical claims and benefits included € 30 million (2012: € 100 million) for compensation to unit-linked insurance policyholders, consisting of the annual interest accrual of € 10 million (2012: € 25 million) and an extra addition of € 20 million (2012: € 75 million). It has been established that the remaining provision is adequate to provide compensation in future periods based on the current agreement. For further information see section 22.19.4 Legal proceedings.

The provision for defined contribution pension contracts amounts to € 4 million at year-end 2013 (2012: € 35 million). In 2013, this provision was increased by € 10 million (2012: € 12 million), represented in the technical claims and benefits for expected future compensation. The provision will be used to adjust the amount of policy costs in the policy contracts to a maximum, in accordance with the advice of the Verbond van Verzekeraars. The compensation scheme is the result of insufficient transparent communication with participants in pension contracts on the costs in these insurance policies and the implications for the prognoses of the pensions. In 2013 a large part of the portfolio is compensated and € 41 million was used from this provision.

a. Statement of change in provision for life insurance obligations for own risk

	Gross		Reinsurance	
In € millions	**2013**	2012	**2013**	2012
Balance as at 1 January	26,803	24,433	3,021	3,250
Portfolio reclassification	655	350	-	-
Reinsurance contracts	-	-	1,260	-
Benefits paid	(2,130)	(2,132)	(637)	(416)
Premiums received	1,293	1,348	164	157
Interest added	905	935	139	127
Technical result	(166)	(196)	(167)	(157)
Release of expense loading	(169)	(169)	83	62
Change in shadow accounting	(1,162)	2,231	-	-
Change in IFRS LAT shortfall	194	-	-	-
Other movements	(7)	3	-	(2)
Balance as at 31 December	**26,216**	**26,803**	**3,863**	**3,021**

In 2013 an amount of € 9 million (2012: nil) was reclassified from life insurance obligations for profit sharing, bonuses and discounts to life insurance obligations for own risk. Also, for an amount of € 646 million (2012: € 350 million) was reclassified from insurance on behalf of policyholders to life insurance obligations for own risk. Thereof € 223 million was related to the transfer of the Separate Accounts to own risk at Zwitserleven. This transfer took place in agreement with the customer after expiration of the contract.

The table below presents the movements related to shadow accounting, against an equal movement in the balance sheet item Insurance contracts.

Specification changes in shadow accounting in provisions for life insurance obligations

	Through OCI, revaluation reserves		Through Income statement, technical claims and benefits		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Results on allocated investments and interest derivatives*	-	-	82	(33)	82	(33)
Profit sharing	(296)	250	92	49	(204)	299
Shadow loss accounting	(1,040)	1,965	-	-	(1,040)	1,965
Total changes in shadow accounting in provision for life insurance obligations	**(1,336)**	**2,215**	**174**	**16**	**(1,162)**	**2,231**
Taxes	(333)	554	45	5	(288)	559
Total changes, net	(1,003)	1,661	129	11	(874)	1,672

** This relates to results on interest derivatives and fixed income investments available for sale recognised in profit and loss, provided that they are held to match interest related derivatives and guarantees for account of policyholders, embedded in the provision for life insurance obligations.*

b. Statement of change in unamortised interest rate discounts

	Life own risk	
In € millions	**2013**	2012
Balance as at 1 January	400	445
Discounts given in the financial year	(11)	1
Amortisation	(45)	(46)
Balance as at 31 December	**344**	**400**

c. Statement of change in provision for profit sharing, bonuses and discounts

	Life own risk	
In € millions	**2013**	2012
Balance as at 1 January	115	132
Portfolio reclassification	(9)	-
Profit sharing, bonuses and discounts granted in the financial year	(16)	(17)
Balance as at 31 December	**90**	**115**

d. Statement of change in technical provisions for insurance on behalf of policyholders

In € millions	**2013**	2012
Balance as at 1 January	13,929	13,255
Portfolio reclassification	(646)	(350)
Premiums received	1,102	1,276
Benefits paid	(1,423)	(1,371)
Interest added	429	563
Exchange rate / valuation differences	538	682
Technical result	(26)	41
Release of expense loading	(117)	(141)
Other movements	(21)	(26)
Balance as at 31 December	**13,765**	**13,929**

22.15 Other provisions

Specification other provisions

In € millions	**2013**	2012
Restructuring provision	3	4
Other provisions	11	11
Total	**14**	**15**

The restructuring provision mainly relates to cost reduction programmes. It is expected that the largest part of the reorganisations will be settled in the coming years.

The other provisions are mainly of a long term nature and were made partly with a view to the risk that (legal) claims may not be settled. The timing of expected outflow of means is uncertain.

Statement of change in other provisions

	Restructuring provision		Other provisions		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Balance as at 1 January	4	-	11	14	15	14
Additions / release	3	4	1	1	4	5
Withdrawal	-	-	-	(3)	-	(3)
Released to results	(4)	-	(3)	-	(7)	-
Other movements	-	-	2	(1)	2	(1)
Balance as at 31 December	**3**	**4**	**11**	**11**	**14**	**15**

22.16 Liabilities related to collateral and receivables

Specification liabilities related to collateral and receivables

In € millions	2013	2012
Non-current debt	4,838	4,009
Other	42	52
Total	**4,880**	**4,061**

22.17 Amounts due to banks

Specification amounts due to banks

In € millions	2013	2012
Due on demand	594	548
Deposits and certificates	1,348	2,446
Total	**1,942**	**2,994**

The deposits and certificates comprise liabilities ensuing from repo agreements amounting to € 1.3 billion (2012: € 2.4 billion).

Also, the amounts due to banks comprise structured transactions. These liabilities are offset by investments, mainly including government bonds with the highest rating. These debts will be settled at the same time as the corresponding investments.

22.18 Other liabilities

Specification other liabilities

In € millions	2013	2012
Debts in relation to direct insurance	546	532
Debts to reinsurers	79	52
Other taxes	40	43
Other liabilities	876	1,779
Accrued interest	81	38
Total	**1,622**	**2,444**

The accrued interest consists of an amount of € 44 million (2012: nil) of deferred coupon payments on the subordinated bonds that were issued by SRLEV NV in 2011. For more information on deferred coupon payments, see section 22.13.1 Subordinated bonds.

22.19 Off balance sheet commitments

22.19.1 Contingent liabilities

Specification contingent liabilities

In € millions	2013	2012
Liabilities from pledges and guarantees given	8	11
Liabilities from irrevocable facilities	89	38
Total	**97**	**49**

Liabilities from pledges and guarantees relate to SRLEV NV's maximum potential credit risk arising from climbing loans with ABN AMRO as intermediary. Climbing loans are private loans for which it was agreed that the principal sum is not paid at once, but according to a certain schedule. In the course of time, subsequent deposits are part of the investment portfolio. This position does not affect SRLEV NV's solvency margin.

The irrevocable facilities consist mainly of credit facilities that are pledged to clients, but against which no claim has been made. These facilities are pledged for a set period and at a variable interest rate. Collateral has been obtained for the majority of the irrevocable credit facilities.

Moreover, SRLEV NV has made commitments to investment funds to invest in these funds for a certain amount. These funds may in due course call these commitments (capital calls). In anticipation of these capital calls, the securities are identified so they can be sold as soon as a capital call takes place. This position has no effect on the available capital of the solvency position of SRLEV NV.

For information about the contingent liabilities with related parties of SRLEV NV please refer to section 22.20.2 Positions and transactions between SRLEV NV, SNS REAAL NV, REAAL NV, SNS Bank NV and sister companies.

22.19.2 Guarantee and compensation systems

SRLEV NV guaranteed the fulfilment of liabilities arising from an insurance contract between SRLEV's subsidiary NV Pensioen Esc and a third party, related to this third party's defined benefit pension plan, including indexation allowances conditional on the financial position of NV Pensioen Esc. REAAL NV will take over the guarantee if the solvency of SRLEV NV falls below 150%.

DNB can impose a levy on SNS REAAL as part of a so-called 'Relief scheme'. This plan provides that a life insurer that falls below the minimum solvency, is transferred to a receiving institution by reinsurance or portfolio transfer. The amount required for this purpose shall be apportioned among all life insurers, taking into account their own required solvency, whereby a maximum of approximately € 277 million in total and approximately € 138 million per relief situation is applied.

22.19.3 Netherlands Terrorism Reinsurance Company

In 2014, SRLEV will take a 14,45% (2013: 13.79%) share in the cluster life of the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV (Netherlands Terrorism Reinsurance Company). In 2014, the extent of the guarantee is € 58 million (2013: € 55 million) and the obliged premium € 1 million (2013: € 1 million).

22.19.4 Legal proceedings

SRLEV is involved in legal proceedings. Although it is impossible to predict the result of pending or threatening legal proceedings, on the basis of information currently available and after consulting legal advisors, the Executive Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of SRLEV.

Unit-linked insurance policies SRLEV

Since 2008 there has been widespread public attention for the costs and risks related to unit-linked insurance policies and the question whether insurance companies adequately informed their (prospective) customers in that regard. In response to this, SRLEV (and other insurers) have concluded a compensation scheme with consumer organisations. Based on this scheme, the costs that have been – and will be – withheld until the maturity date will be redeposited into the insurance policy, in so far as these costs are higher than the maximum percentage specified in the compensation scheme. The compensation scheme has been implemented.

While earlier attention mainly focused on the compensation of costs, Dutch insurers now see an increase in unit-linked insurance policies complaints/claims based on different grounds. On top of this, there is a lot of attention for the united-linked insurance policies on the part of regulators, politicians and media. Since 2008, SRLEV has received a considerable number of complaints/claims from customers who blame SRLEV for not having informed (or warned) them clearly enough about the costs, specific product features and related risks prior to taking out the insurance policy. And some customers blame SRLEV for not having warned them adequately of the possible impact of actual developments, such as the financial crisis, on the target capital during the duration of the policy.

SRLEV uses various means of communication to encourage customers to check if their unit-linked policy still meets the purpose for which it was originally taken out and to consider adapting their product or other forms of capital accumulation (‘flanking policy’).

The number of court proceedings related to unit-linked insurance policies against SRLEV is limited, but growing. At year-end 2013, sixteen proceedings were submitted to Kifid’s Arbitration Committee and three at civil courts. To date, the number of cases in which SRLEV was held to pay damages in a decision of the Arbitration Committee or civil court was limited. With the growing number of proceedings, however, the chances of convictions is also growing. SRLEV NV was recently, in a letter dated 11 February 2014, held liable by the Stichting Woekerpolisproces in connection with offering unit-linked policies through DSB NV. It is as yet unclear whether and in what way this process will be continued.

The costs of the compensation scheme and flanking policy are substantial and are recognised in the financial statements. Current and possible future subsequent legal proceedings could have a substantial financial and reputational impact. However, it is not possible at this time to make reliable estimates of the number of expected proceedings, possible future precedents and the financial impact of current and possible future proceedings. SRLEV, therefore, made no provision.

22.20 Related parties

22.20.1 Identity of related parties

Parties are considered to be related if one party can exert control or significant influence over the other party in deciding financial or operational matters. As a part of its ordinary operations, SRLEV maintains various sorts of ordinary business relations with related companies and parties. Related parties with SRLEV NV are parents REAAL NV and SNS REAAL NV, sister companies, subsidiaries, associated companies and managers in key positions and close family members of these managers. Transactions with the related parties are in the areas of normal insurance, taxation and other administrative relationships.

Transactions with related parties are conducted 'at arm’s length', except where otherwise mentioned. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

SRLEV has several joint staff departments with parents REAAL and SNS REAAL. In 2013 group-level costs are structurally allocated to the insurance activities. For further detail reference is made to section 16 Segmented financial statement.

22.20.2 Positions and transactions between SRLEV NV, SNS REAAL NV, REAAL NV and other related companies

Positions and transactions SRLEV NV, SNS REAAL NV, REAAL NV, SNS Bank NV and sister companies

	SNS REAAL NV		REAAL NV		SNS Bank NV		Sister companies	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Positions								
Loans and advances	28	7	69	656	3,050	3,369	16	-
Subordinated debts	95	95	-	-	-	-	-	-
Other debt	6	6	235	70	862	470	-	11
Transactions								
Mutation loans and advances	21	4	(587)	(415)	(319)	2,977	16	(210)
Mutation subordinated debts	-	(11)	-	-	-	-	-	(198)
Mutation other debt	-	4	165	(423)	392	196	(11)	(198)
Income	14	15	3	23	112	82	-	1
Impairments	9	-	-	-	-	-	-	-
Other paid costs	70	63	-	-	23	-	-	3

Fiscal unity

SRLEV NV is a direct and 100% subsidiary of REAAL NV which is a direct and 100% subsidiary of SNS REAAL NV. Together with other group companies, they constitute a fiscal unity for corporate income tax and VAT purposes. All companies within this fiscal unity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the relevant tax entities.

The corporation tax payable and receivable for the years up to and including 2010 is irrevocably determined. The amount of corporation tax recorded by the various subsidiaries pertaining to these years, has not yet been settled with the head of the fiscal unity. The same applies to the corporation tax payable or receivable for the years 2011 through 2013.

Funding related intragroup transactions and positions

In the second half of 2013, a number of measures has been taken aimed at strengthening the capital position of parent REAAL NV and reducing the interdependency between SNS Bank NV and REAAL NV. The measures are in line with the commitment to phase out the financial interdependence between the bank and the insurer and have been agreed upon by the Dutch Central Bank. For more information about the re-allocation please refer to Chapter 21 Capital management. The measures with regard to REAAL NV include that SRLEV NV intends to provide a credit facility of € 200 million to REAAL NV. This facility was not legally formalised or used as of 31 December 2013, with the agreement signed in March 2014. This facility, if used, will be deducted in phases from the available capital of SRLEV NV. The phasing did not have an impact on the year-end 2013, and the expectation is that the facility will be used for 50% as of the end of 2014 and for 100% as of the end of 2015. The facility is temporary and will be repaid upon sale of the insurer.

SRLEV NV and REAAL Schadeverzekeringen NV conducted intercompany sales transactions in 2013 to better allocate the risk budget between the segments within the insurer. SRLEV NV realised a gain of € 17 million on the sale of bonds in the amount of € 262 million to REAAL Schadeverzekeringen NV. Additionally, SRLEV NV realised a gain of € 20 million on the sale of shares in the amount of € 201 million. REAAL Schadeverzekeringen NV realised a gain of € 15 million on the sale of obligations in the amount of € 472 million to SRLEV NV. The bond transactions were executed through a brokerage firm (SNS Securities NV). The share transactions were privately transferred at market value.

Mortgage related intragroup transactions and positions

SRLEV and SNS Bank have sold so called “spaarhypotheken” (savings mortgages) to their customers. A savings mortgage is a financial product which combines an insurance policy issued by SRLEV with a mortgage issued by SNS Bank. The proceeds from the insurance policy will ultimately be used to redeem the mortgages.

The savings parts of these insurance premiums received by SRLEV from the policyholders are in the name and at the risk of SRLEV deposited by SRLEV at SNS Bank against interest rates equal to the interest rates on the mortgages linked to these insurance policies.

SRLEV and SNS Bank entered into a cession/retrocession transaction. In this transaction SRLEV purchased and got transferred and will continue to purchase and to get transferred from SNS Bank a portion of the legal ownership of each savings mortgage equal to the amounts of the savings parts SRLEV deposited at SNS Bank including the interest added to it by SNS Bank. The amounts deposited at SNS Bank including the accrued interest thereon are equal to the purchase price of the legal ownership of the mortgages and these amounts are used to settle SRLEV’s relating payment obligation. To the extent that these amount increase due to new (monthly) saving parts deposited by SRLEV at SNS Bank and due to the interest added to it, that amount will be paid by SRLEV to SNS Bank and SNS Bank sells additional portions of legal ownership of saving mortgages and transfers ownership thereof to SRLEV. To the extent these amounts decrease, for example in case of the expiration of an insurance policy, SNS Bank repurchases and gets transferred the legal ownership of the mortgage at a predetermined purchase price equal to the amount of the decrease of the savings parts deposited including the interest added to it. The abovementioned cession/retrocession agreement does not apply to mortgages that are securitised. In addition to the aforementioned, SNS Bank is not allowed to enter into (securitisation) transactions with savings mortgages linked to an insurance policy of SRLEV’s without SRLEV’s prior permission.

Because the sale price of the legal ownership corresponds to the repurchase price and the cession/retrocession agreement explicitly stipulates that the credit risk on the savings mortgages remains with SNS Bank, no transfer of economic ownerships takes place. Therefore the mortgages remain recognised on SNS Bank’s balance sheet. As of 31 December 2013, the legal ownership of € 1,586 million was transferred to SRLEV.

With respect to amounts deposited by SRLEV at SNS Bank relating to mortgages that are securitised by SNS Bank (31 December 2013: EUR 811 million; 31 December 2012: EUR 407 million), SRLEV received a loan from SNS Bank that was used by SRLEV to acquire sub participations in the securitised mortgages from the special purpose companies involved in the securitisation.

Other key transactions and positions between SRLEV and SNS Bank

- At the end of 2013 the investments of SRLEV in fixed income securities issued by SNS Bank NV amounted to € 22 million (2012: € 29 million).
- At the end of 2013 the investments of SRLEV in bonds issued by various Hermes securitisation entities consolidated by SNS Bank amounted to an amortised cost of € 22 million (2012: € 88 million).
- At the end of 2013 the investments of SRLEV in bonds issued by various Holland Homes securitisation entities consolidated by SNS Bank amounted to an amortised cost of € 54 million (2012: € 94 million).

22.20.3 Transactions and positions with managers in key positions of SRLEV

Managers in key positions comprise three members of the Executive Board of SNS REAAL NV (2012: 3 members) and the boards of the business units (REAAL and Zwitserleven), acting as such in 2013. In total there were 13 persons in key positions (2012: 11 persons).

The table below provides an overview of the total remuneration of managers in key positions.

Specification remuneration managers in key positions

	Statutory board		Other managers in key positions		Total	
In € thousands	**2013**	2012	**2013**	2012	**2013**	2012
Fixed annual income* **	1,575	1,794	2,224	1,749	3,799	3,543
Pension contribution	241	298	317	263	558	561
Long-term remuneration	-	1	-	1	-	2
Termination benefits	-	-	607	-	607	-
Total	**1,816**	**2,093**	**3,148**	**2,013**	**4,964**	**4,106**

** The benefit of the private use of a business car in the 2012 accounts has not yet been included as a component of remuneration. For that reason the amount of the 2012 fixed annual income component is € 120k higher than in the 2012 financial statements*

*** In contrast to the 2012 financial statements the valuation of disability and life insurance for both 2013 and 2012 is based on the grossed-up benefit for the employee, and not the premium paid by the employer. For that reason the 2012 fixed annual income component € 87k higher than in the 2012 financial statements.*

Fixed annual income (IFRS: 'Short-term employee benefits') means the fixed salary (including holiday allowance, 13th month's bonus, contribution to health insurance and social security) and the variable remuneration. No variable remuneration is paid to senior management for 2013. SRLEV took out three insurance policies for the members of senior management: WIA insurance, disability insurance and mortality risk insurance. The corresponding premiums are paid for by SRLEV. These premiums are also part of the fixed annual income.

In accordance with the Tax Plan 2014 and based on the Budget Agreement 2013 Tax Measures Implementation Act ('Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013'), SRLEV pays a one-off 'crisis tax levy' of 16% in 2013 on the salaries of its employees in 2013, but only if the salary (per employee) exceeded € 150,000.
The crisis tax levy is also part of the fixed annual income. In 2013, the salary of 12 persons of senior management (2012: 11 persons) exceeded € 150,000. The total crisis tax levy of senior management in 2013 amounted to € 278,000 (2012: € 276,000).

'Pension contribution' (IFRS: 'Post-employment benefits'), means the pension contribution paid for by the employer, after deduction of the contribution paid by the employee.

'Long-term remuneration'(IFRS: 'Other long-term employee benefits'), means the remuneration that has been awarded but has not yet been paid out.

'Termination benefits' (IFRS: 'Severance and redundancy pay'), means the pay under termination of the employment contract, including any compensation to which the employee is entitled in connection with the employment termination without performing work.

Loans

The table below provides an overview of the loans granted to members of the senior management that were outstanding on 31 December 2013. These loans were mortgage loans provided in the course of ordinary business and under conditions that also apply to other members of staff.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate		Redemptions	
In € thousands	**2013**	2012	**2013**	2012	**2013**	2012
Mortgage loans	3,460	4,785	4.00%	3.73%	279	203

** The average interest rate is the interest paid as a percentage of the average outstanding mortgage loan balances*

The change in outstanding positions per 31 December 2013 and 2012 is due to repayments in 2013 and changes in executive management positions.

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL NV are explained in Chapter 16.6 Remuneration report of the Report of the Supervisory Board of the Annual Report of SNS REAAL NV.

22.21 Subsequent events

SRLEV NV concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

22.22 Net premium income

The net premium income concerns insurance premiums less reinsurance premiums.

Specification net premium income

	Own account		For account of policyholders		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Total gross regular premiums	969	1,019	965	1,052	1,934	2,071
Total gross single premiums	324	329	137	224	461	553
Total gross premium income	**1,293**	**1,348**	**1,102**	**1,276**	**2,395**	**2,624**
Total reinsurance premiums	164	156	-	-	164	156
Total net premium income	**1,129**	**1,192**	**1,102**	**1,276**	**2,231**	**2,468**

Specification regular premiums

	Own account		For account of policyholders		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Individual						
Without profit sharing	536	540	411	482	947	1,022
With profit sharing	154	184	-	-	154	184
Total individual	**690**	**724**	**411**	**482**	**1,101**	**1,206**
Group						
Without profit sharing	-	-	554	570	554	570
With profit sharing	279	295	-	-	279	295
Total group	**279**	**295**	**554**	**570**	**833**	**865**
Total gross regular premiums	**969**	**1,019**	**965**	**1,052**	**1,934**	**2,071**

Specification single premiums

In € millions	Own account 2013	Own account 2012	For account of policyholders 2013	For account of policyholders 2012	Total 2013	Total 2012
Individual						
Without profit sharing	215	207	4	4	219	211
With profit sharing	-	7	-	-	-	7
Total individual	**215**	**214**	**4**	**4**	**219**	**218**
Group						
Without profit sharing	-	-	133	220	133	220
With profit sharing	109	115	-	-	109	115
Total group	**109**	**115**	**133**	**220**	**242**	**335**
Total gross single premiums	**324**	**329**	**137**	**224**	**461**	**553**

22.23 Net fee and commission income

This item includes fees from services provided, insofar as not interest related.

Specification net fee and commission income

In € millions	2013	2012
Fee and commission income:		
- Securities activities	2	2
- Insurance agency activities	(1)	(1)
- Management fees	50	50
- Other activities	13	17
Total fee and commission income:	**64**	**68**
Fee and commission expense	2	3
Total	**62**	**65**

22.24 Share in result of associates

This item represents the share in result of associated companies. In 2013 the result amounts to € 1 million (2012: € 10 million).

22.25 Investment income

Specification investment income

In € millions	2013	2012
Fair value through profit or loss: Designated	19	33
Available for sale	784	971
Loans and receivables	491	509
Investment property	10	(6)
Total	**1,304**	**1,507**

Composition of investment 2013

In € millions	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Interest	-	11	582	489	-	1,082
Dividend	-	-	26	-	-	26
Rental income	-	-	-	-	21	21
Total interest dividend and rental income	**-**	**11**	**608**	**489**	**21**	**1,129**
Realised revaluations	-	14	176	2	-	192
Unrealised revaluations	-	(6)	-	-	(11)	(17)
Total revaluations	**-**	**8**	**176**	**2**	**(11)**	**175**
Total	**-**	**19**	**784**	**491**	**10**	**1,304**

Composition of investment 2012

In € millions	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Interest	-	23	617	508	-	1,148
Dividend	-	-	35	-	-	35
Rental income	-	-	-	-	15	15
Total interest dividend and rental income	**-**	**23**	**652**	**508**	**15**	**1,198**
Realised revaluations	-	2	319	1	-	322
Unrealised revaluations	-	8	-	-	(21)	(13)
Total revaluations	**-**	**10**	**319**	**1**	**(21)**	**309**
Total	**-**	**33**	**971**	**509**	**(6)**	**1,507**

Rental income from investment property includes both rental income and directly allocated operating expenses. The operating expenses amounted to € 7 million (2012: € 10 million).

The recognised interest income on the devaluation of investments amounts to € 1 million (2012: € 2 million).

Included in the investment income is a net loss due to foreign exchange rate movements of € 4 million (2012: € 1 million).

22.26 Investment income for account of policyholders

Specification investment income for account of policyholders

In € millions	2013	2012
Interest	45	90
Dividend	145	101
Total interest and dividend	**190**	**191**
Revaluations	438	1,321
Total	**628**	**1,512**

22.27 Result on financial instruments

Specification result on financial instruments

In € millions	2013	2012
Revaluations transferred from shareholders' equity	8	3
Interest income transferred from shareholders' equity	3	5
Result on derivatives held for cash flow hedge accounting	**11**	**8**
Fair value movements in hedging instruments	(1)	(1)
Fair value movements in hedged item attributable to hedged risks	(4)	(1)
Fair value movements in derivatives held for fair value hedge accounting	**(5)**	**(2)**
Fair value movements of derivatives maintained for ALM not classified for hedge accounting	55	21
Share options	(1)	(15)
Total	**60**	**12**

The ineffectiveness recognised in profit or loss that arises from cash flow hedges was nil (2012: € 0.4 million).

22.28 Technical claims and benefits

Technical claims and benefits include benefits paid, surrenders, claims paid, claim handling costs and changes in insurance contracts. This item also includes profit sharing and discounts.

Specification technical claims and benefits

	Gross		Reinsurance		Total	
In € millions	2013	2012	2013	2012	2013	2012
Benefits paid and surrenders from own account	2,688	2,408	(637)	(416)	2,051	1,992
Change in technical provisions for own risk	(284)	184	371	229	87	413
Profit sharing and discounts	-	-	53	80	53	80
Change in shadow accounting	174	16	-	-	174	16
Change in LAT shortfall	194	-	-	-	194	-
Total	**2,772**	**2,608**	**(213)**	**(107)**	**2,559**	**2,501**

Benefits paid and surrenders for own account include an amount for amortisation and impairment of VOBA of € 555 million (2012: € 272 million). This amount includes the impairments because of the deficit of € 520 million (2012: € 206 million), after using shadow loss accounting, established in the IFRS liability adequacy test as a result of the low interest rates and higher life expectancies. Given the difficult market conditions and the subsequently decreasing profit potential, it was decided to deduct this deficit, which was charged to the result, from the VOBA.

Profit sharing and discounts include an amount for amortisation of interest rate discounts of € 45 million (2012: € 46 million).

Change in technical provisions for own risk includes technical claims and benefits for compensation to unit-linked insurance policyholders, as well as compensation regarding defined contribution pension contracts. For more information on the compensation scheme, please refer to section 22.14 Insurance and reinsurance contracts.

22.29 Charges for account of policyholders

Charges for account of policyholders include benefits paid, surrenders and changes in insurance contracts. This item also includes profit sharing and discounts for these policyholders.

Specification charges for account of policyholders

In € millions	2013	2012
Benefits paid and surrenders for life insurance contracts for account of policyholders	1,423	1,371
Change in technical provisions for life insurance contracts for account of policyholders	240	895
Total	**1,663**	**2,266**

22.30 Acquisition costs for insurance activities

Specification acquisition costs for insurance operations

In € millions	2013	2012
Gross	67	92
Reinsurance	10	(1)
Total	**77**	**91**

22.31 Staff costs

Specification staff costs

In € millions	2013	2012
Salaries	36	37
Pension costs	9	17
Social security	5	5
Other staff costs	74	79
Total	**124**	**138**

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and training and education costs. The lease commitments of the fleet amount to € 2 million (2012: € 3 million) and hiring staff € 29 million (2012: € 15 million).

Remuneration of individual members of the Executive Board and the Supervisory Board of SNS REAAL are explained in section 16.6 Remuneration report of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

Average number of FTE's

In numbers	2013	2012
Average number of FTE's	1,790	1,773

Shares granted

	Shares (in numbers)		Weighted average grant date fair value (in €)	
	2013	2012	**2013**	2012
Total	**-**	**2,914**	**-**	**1.74**
of which conditionally	-	1,294	-	1.74

All staff is employed by SNS REAAL NV.

Share plan

In 2013, no shares were granted to the Executive Board members and other senior management members. In 2012, a number of 2,914 shares were granted to managers and other employees. This concerns the remuneration in shares of 2011. With the nationalisation in February 2013, these shares are expropriated in favour of the Dutch State.

Statement of change conditionally granted shares

	Shares (in numbers)	
	2013	2012
As at 1 January	1,294	1,294
Expropriated	(1,294)	-
As at 31 December	**-**	**1,294**
Market value grant date	-	2,200
Market value as at 31 December	**-**	**1,332**

In 2011 SNS REAAL started the adjustment of the remuneration policy of the 'Regeling Beheerst Beloningsbeleid' of DNB. This regulation requires that a part of the variable remuneration must take place in shares.

In 2011 SNS REAAL started the adjustment of the remuneration policy of the 'Regeling Beheerst Beloningsbeleid' of DNB. This regulation requires that a part of the variable remuneration must take place in shares. With the nationalisation in February 2013, the old share plan has lapsed.

Under the new share plan, effective as of 1 January 2013, the variable remuneration of employees of SNS REAAL and its group entities is granted partly in phantom shares. The value development of these shares is based on the development of the result of SNS REAAL, if necessary corrected for one-off items. The value of the phantom shares is cash settled at the end of the maturity.

Based on the ‘Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013’, in 2013 REAAL paid a one-off crisis tax levy of 16% on the salaries from current employment that it paid its employees in 2012, to the extent that a salary was more than € 150,000. For REAAL, this levy amounted to € 0.5 million in 2012. The crisis tax levy is extended for one year and amounts to € 0.1 million in 2013.

22.32 Other operating expenses

Specification other operating expenses

In € millions	**2013**	2012
Housing	4	4
IT systems	32	41
Marketing and public relations	2	4
External advisors	2	1
Other costs	111	84
Total	**151**	**134**

In 2013, expenses incurred at Group level (SNS REAAL) will be allocated to the Banking and Insurance activities. For more information, see Chapter 16 Segmentation.

22.33 Impairment charges / (reversals)

Specification impairment charges / (reversals) by class of asset

	Impairments		Reversals		Total	
In € millions	**2013**	2012	**2013**	2012	**2013**	2012
Through profit or loss						
Intangible assets	20	235	-	-	20	235
Property and equipment	5	18	-	-	5	18
Investments	34	37	12	4	22	33
Other debts	4	-	-	-	4	-
Total through profit or loss	**63**	**290**	**12**	**4**	**51**	**286**
Through equity						
Property and equipment	-	-	-	1	-	(1)
Investments	12	28	-	3	12	25
Total through equity	**12**	**28**	**-**	**4**	**12**	**24**

In 2013 an impairment of € 20 million (2012: € 235 million) of intangible assets was made. Reference is made to section 22.1.

An impairment of € 6 million gross (2012: € 3 million) relates to expropriated bonds of SNS Bank NV.

22.34 Other interest expenses

Specification other interest expenses

In € millions	**2013**	2012
Bonds	45	42
Private loans	39	34
Interest on reinsurance deposits	118	49
Other interest and investments expenses	5	13
Total	**207**	**138**

The interest rate on the reinsurance deposit has increased in 2013 to € 118 million (2012: € 49 million), this increase was caused by concluding a new reinsurance transaction in 2013.

22.35 Taxation

Specification taxation

In € millions	**2013**	2012
In financial year	85	79
Prior year adjustments	-	4
Corporate income tax due	**85**	**83**
Due to temporary differences	(227)	(91)
Deferred tax	**(227)**	**(91)**
Total	**(142)**	**(8)**

Reconciliation between the statutory and effective tax rate

In € millions	**2013**	2012
Statutory income tax rate	25.0%	25.0%
Result before tax	(558)	(1)
Statutory corporate income tax amount	**(140)**	**-**
Effect of participation exemption	(2)	(12)
Prior year adjustments (including tax provision release)	-	4
Total	**(142)**	**(8)**
Effective tax rate	25.4%	1.8%

Alkmaar, 15 April 2014

Supervisory Board
J.J. Nooitgedagt (Chairman)
C.M. Insinger
M.R. Milz
J.A. Nijhuis
J.A. Nijssen
J.C.M. van Rutte
L.J. Wijngaarden

Management Board
W.H. Steenpoorte (Chairman)
M.B.G.M. Oostendorp
D.J. Okhuijsen

23 Company financial statements

23.1 Company balance sheet

Company balance sheet

Before result appropriation and in € millions	*Notes**	2013	2012
Assets			
Intangible assets	1	-	579
Property and equipment	2	45	45
Subsidiaries	3	98	123
Receivables from subsidiaries	4	731	1,925
Investment properties	5	145	155
Investments	6	30,089	30,325
Investments for account of policyholders	7	13,198	12,907
Derivatives		590	479
Deferred tax assets		652	952
Reinsurance contracts	11	3,863	3,021
Loans and advances to banks		351	450
Corporate income tax		38	101
Other assets	8	524	1,225
Cash and cash equivalents	9	978	1,512
Total assets		**51,302**	**53,799**
Equity and liabilities			
Issued share capital		-**	-**
Share premium reserve		1,619	1,619
Revaluation reserve		108	122
Statutory reserves associates		(24)	3
Other statutory reserves		24	-
Other reserves		1,376	1,394
Retained earnings		(416)	4
Shareholders' equity	10	**2,687**	**3,142**
Subordinated debt		652	677
Capital base		**3,339**	**3,819**
Insurance contracts	11	39,441	40,101
Other provisions		14	15
Derivatives		88	35
Deferred tax liabilities		328	851
Liabilities related to collateral and receivables	12	4,767	3,913
Amounts due to banks	13	1,942	2,994
Corporate income tax		(1)	(1)
Other liabilities	14	1,384	2,072
Total equity and liabilities		**51,302**	**53,799**

** The references next to the balance sheet items relate to the notes to the company balance sheet starting from section 24.1*

*** The issued and paid up share capital of SRLEV NV is € 45,000*

23.2 Company income statement

Company income statement

In € millions	2013	2012
Result on subsidiaries after taxation	8	18
Other results after taxation	(424)	(14)
Net result attributable to minority interests	**(416)**	**4**

23.3 Principles for the preparation of the company financial statements

SRLEV prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on subsidiaries after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code to use the same principles for valuation and the determination of the result that are used in the consolidated financial statements for the company financial statements. Reference is made to Chapter 15 (Accounting principles for the consolidated financial statements).

For additional information on items not explained further in the notes to the company balance sheet, reference is made to Chapter 22 (Notes to the consolidated financial statements).

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Alkmaar.

Subsidiaries are all companies and other entities in respect of which SRLEV has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by SRLEV. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cash flow, fair value and profit sharing reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software of the subsidiaries are also presented in the statutory reserve associates.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with SRLEV accounting policies, are included in the income statement. The distributable reserves of subsidiaries are included in other reserves.

Receivables from and amounts due to subsidiaries are intercompany balances, and are valued at amortised cost.

Cash and cash equivalents include the non-restricted amounts held at credit institutions.

24 Notes to the company financial statements

24.1 Intangible assets

Specification intangible assets

In € millions	2013	2012
Software	-	23
Value of Business Acquired (VOBA)	-	556
Total	**-**	**579**

At year-end 2013, there is no internal developed and capitalised software (2012: 3 million).

Due to the deficit in the IFRS adequacy test (LAT), the VOBA (2012: € 556 million) is fully impaired in 2013. For more information on this subject refer to section 22.1

Statement of change in intangible assets 2013

In € millions	Goodwill	Software	VOBA	Other intangible assets	Total
Accumulated acquisition costs	-	49	1,222	-	1,271
Accumulated amortisation and impairments	-	(49)	(1,222)	-	(1,271)
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**
Balance as at 1 January	-	23	556	-	579
Depreciation purchases	-	(3)	(36)	-	(39)
Impairments	-	(20)	(520)	-	(540)
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**

Statement of change in intangible assets 2012

In € millions	Goodwill	Software	VOBA	Other intangible assets	Total
Accumulated acquisition costs	85	52	1,184	185	1,506
Accumulated amortisation and impairments	(85)	(29)	(628)	(185)	(927)
Balance as at 31 December	**-**	**23**	**556**	**-**	**579**
Balance as at 1 January	85	26	826	152	1,089
Purchases	-	7	-	-	7
Changes in the composition of group companies	-	(4)	-	-	(4)
Depreciation purchases	-	(6)	(272)	(2)	(280)
Impairments	(85)	-	-	(150)	(235)
Other	-	-	2	-	2
Balance as at 31 December	**-**	**23**	**556**	**-**	**579**

24.2 Property and equipment

Specification property and equipment

In € millions	2013	2012
Land and buildings in own use	44	43
Other assets	1	2
Total	**45**	**45**

Statement of change in property and equipment 2013

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	95	-	2	97
Accumulated revaluations	(6)	-	-	(6)
Accumulated amortisation and impairments	(45)	-	(1)	(46)
Balance as at 31 December	**44**	**-**	**1**	**45**
Balance as at 1 January	43	-	2	45
Reclassifications	1	-	(1)	-
Revaluations	(1)	-	-	(1)
Investments	3	-	-	3
Divestments	-	-	-	-
Depreciation	(1)	-	-	(1)
Impairments	(1)	-	-	(1)
Balance as at 31 December	**44**	**-**	**1**	**45**

Statement of change in property and equipment 2012

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	69	2	4	75
Accumulated revaluations	(15)	-	-	(15)
Accumulated amortisation and impairments	(11)	(2)	(2)	(15)
Balance as at 31 December	**43**	**-**	**2**	**45**
Balance as at 1 January	51	-	3	54
Investments	10	-	-	10
Depreciation	(1)	-	(1)	(2)
Impairments	(17)	-	-	(17)
Balance as at 31 December	**43**	**-**	**2**	**45**

24.3 Subsidiaries

Statement of change in subsidiaries

In € millions	2013	2012
Balance as at 1 January	123	122
Reclassifications	(25)	-
Disposals and divestments	(15)	-
Revaluations	6	(16)
Result	8	18
Dividend received	(1)	(2)
Other movements	2	1
Balance as at 31 December	**98**	**123**

24.4 Receivables from subsidiaries

Specification receivables from subsidiaries

in € millions	2013	2012
Loans and advances	688	1,813
Receivables	41	100
Accrued interest	2	12
Total	**731**	**1,925**

24.5 Investment properties

Statement of change in investment properties

In € millions	2013	2012
Balance as at 1 January	155	169
Reclassifications	-	-
Investments	-	2
Divestments	(7)	-
Revaluations	(3)	(16)
Balance as at 31 December	**145**	**155**

24.6 Investments

Specification investments

In € millions	2013	2012
Fair value through profit or loss: Designated	415	21
Investments available for sale	20,953	21,627
Loans and receivables	8,721	8,677
Total	**30,089**	**30,325**

Statement of change in fair value through profit or loss: designated

In € millions	2013	2012
Balance as at 1 January	21	32
Purchases and advances	497	-
Disposals and redemptions	(98)	(10)
Revaluations	(6)	(1)
Change in accrued interest	1	-
Balance as at 31 December	**415**	**21**

Statement of change in investments available for sale

In € millions	2013	2012
Balance as at 1 January	21,627	20,279
Reclassifications	25	-
Purchases and advances	4,292	7,251
Disposals and redemptions	(3,765)	(7,189)
Revaluations	(1,177)	1,350
Impairments	(15)	(37)
Repossession impairments	-	4
Amortisation	(36)	(22)
Change in accrued interest	2	(9)
Balance as at 31 December	**20,953**	**21,627**

Statement of change in loans and receivables

In € millions	2013	2012
Balance investments as at 1 January	8,681	8,255
Purchases and advances	1,567	1,685
Changes in the composition of group companies	-	-
Disposals and redemptions	(1,814)	(1,585)
Amortisation	(2)	1
Interest added	284	273
Other	9	52
Balance investments as at 31 December	**8,725**	**8,681**
Balance provisions as at 1 January	(4)	(4)
Addition	(12)	-
Withdrawal	12	-
Balance provisions as at 31 December	**(4)**	**(4)**
Total	**8,721**	**8,677**

24.7 Investment for account of policyholders

Statement of change in investments for account of policyholders

In € millions	2013	2012
Balance as at 1 January	12,907	12,085
Changes in the composition of group companies	-	(28)
Purchases and advances	1,982	4,943
Disposals and redemptions	(2,156)	(5,362)
Revaluations	461	1,324
Other movements	4	(55)
Balance as at 31 December	**13,198**	**12,907**

24.8 Other assets

Specification other assets

In € millions	2013	2012
Receivables from associated companies	105	858
Accrued interest	15	4
Amounts due from direct insurance	293	267
Other	111	96
Total	**524**	**1,225**

24.9 Cash and cash equivalents

Specification cash and cash equivalents

In € millions	2013	2012
Short-term bank balances	978	1,512
Total	**978**	**1,512**

24.10 Equity

Statement of changes in equity 2013

In € millions	Issued capital	Share premium reserve	Revaluation reserve	Statutory reserves associates	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to shareholders
Balance as at 1 January 2013	-	1,619	122	3	-	1,394	4	3,142
Changes in principles deferred acquisition costs	-	-	-	-	-	-	-	-
Adjusted balance as at 1 January 2013	**-**	**1,619**	**122**	**3**	**-**	**1,394**	**4**	**3,142**
Transfer of 2012 net result	-	-	-	-	-	4	(4)	-
Transfers 2012	**-**	**-**	**-**	**-**	**-**	**4**	**(4)**	**-**
Unrealised revaluations from cash flow hedges	-	-	11	(24)	-	-	-	(13)
Unrealised revaluations	-	-	(901)	-	-	-	-	(901)
Impairments	-	-	12	-	-	-	-	12
Realised revaluations through profit or loss	-	-	(140)	-	-	-	-	(140)
Suppletion negative revaluation reserves associates	-	-	-	-	24	(24)	-	-
Change in shadow accounting	-	-	1,004	-	-	-	-	1,004
Other movements	-	-	-	(3)	-	2	-	(1)
Amounts charged directly to equity	**-**	**-**	**(14)**	**(27)**	**24**	**(22)**	**-**	**(39)**
Net result 2013	-	-	-	-	-	-	(416)	(416)
Total result 2013	**-**	**-**	**(14)**	**(27)**	**24**	**(22)**	**(416)**	**(455)**
Capital issue	-	-	-	-	-	-	-	-
Transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total changes in equity 2013	**-**	**-**	**(14)**	**(27)**	**24**	**(18)**	**(420)**	**(455)**
Balance as at 31 December 2013	**-**	**1,619**	**108**	**(24)**	**24**	**1,376**	**(416)**	**2,687**

Statement of changes in equity 2012

In € millions	Issued capital	Share premium reserve	Revaluation reserve	Statutory reserves	Other statutory reserves	Other reserves	Retained earnings	Equity attributable to share-holders	Securities capital
Balance as at 1 January 2012	-	1,564	1,026	307	-	1,210	178	4,285	55
Changes in principles deferred acquisition costs	-	-	-	(288)	-	(69)	29	(328)	-
Adjusted balance as at 1 January 2013	**-**	**1,564**	**1,026**	**19**	**-**	**1,141**	**207**	**3,957**	**55**
Transfer of 2011 net result	-	-		-	-	207	(207)	-	-
Transfers 2011	**-**	**-**	**-**	**-**	**-**	**207**	**(207)**	**-**	**-**
Unrealised revaluations from cash flow hedges	-	-	(6)	-	-	-	-	(6)	-
Unrealised revaluations	-	-	983	-	-	-	-	983	-
Impairments	-	-	24	-	-	-	-	24	-
Realised revaluations through profit or loss	-	-	(243)	-	-	-	-	(243)	-
Change in shadow accounting	-	-	(1,662)	-	-	-	-	(1,662)	-
Other movements	-	-	-	(16)	-	46	-	30	-
Amounts charged directly to equity	**-**	**-**	**(904)**	**(16)**	**-**	**46**	**-**	**(874)**	**-**
Net result 2012	-	-	-	-	-		4	4	-
Total result 2012	**-**	**-**	**(904)**	**(16)**	**-**	**46**	**4**	**(870)**	**-**
Capital issue	-	55	-	-	-	-	-	55	-
Securities issue / repurchase	-	-		-	-	-	-	-	(55)
Transactions with shareholders and securityholders	**-**	**55**	**-**	**-**	**-**	**-**	**-**	**55**	**(55)**
Total changes in equity 2012	**-**	**55**	**(904)**	**(16)**	**-**	**253**	**(203)**	**(815)**	**(55)**
Balance as at 31 December 2012	**-**	**1,619**	**122**	**3**	**-**	**1,394**	**4**	**3,142**	**-**

24.10.1 Issued share and capital securities

The share capital issued is fully paid and comprises ordinary shares.

The nominal value of the ordinary shares is € 500.00. The number of issued shares as at 31 December 2013 is 90 ordinary shares.

Specification issued share capital

	Number of ordinary shares	
	2013	2012
Authorised share capital	450	450
Share capital in portfolio	360	360
Issued share capital as at 31 December	**90**	**90**

Specification issued shares / securities

SRLEV NV	Ordinary shares 2013	Ordinary shares 2012	Capital securities: State-like' 2013	Capital securities: State-like' 2012
Outstanding as at 1 January	90	90	-	10,476,191
Issues in the financial year	-	-	-	(10,476,191)
Outstanding as at 31 December	**90**	**90**	**-**	**-**

24.11 Insurance contracts

Specification insurance and reinsurance contracts by type of contract

In € millions	Notes	Gross 2013	Gross 2012	Reinsurance 2013	Reinsurance 2012
Provision for life insurance obligations	a	26,216	26,802	3,863	3,021
Unamortised interest rate discounts	b	(344)	(400)	-	-
Provision for profit sharing, bonuses and discounts	c	90	115	-	-
For own risk		**25,962**	**26,517**	**3,863**	**3,021**
Technical provisions for insurance on behalf of policyholders	d	13,479	13,584	-	-
For account of policyholders		**13,479**	**13,584**	**-**	**-**
Total		**39,441**	**40,101**	**3,863**	**3,021**

a. Statement of change in provision for life insurance obligations for own risk

In € millions	Gross 2013	Gross 2012	Reinsurance 2013	Reinsurance 2012
Balance as at 1 January	26,802	24,433	3,021	3,250
Portfolio reclassification	655	25	-	-
Reinsurance contracts	-	-	1,260	-
Benefits paid	(2,130)	(2,132)	(637)	(416)
Premiums received	1,293	1,350	164	157
Interest added	905	932	139	127
Technical result	(166)	(196)	(167)	(157)
Release of expense loading	(169)	(169)	83	62
Change in shadow accounting	(1,162)	2,231	-	-
Change in IFRS LAT shortfall	194	-	-	-
Other movements	(6)	328	-	(2)
Balance as at 31 December	**26,216**	**26,802**	**3,863**	**3,021**

b. Statement of change in unamortised interest rate discounts

In € millions	Life own risk 2013	Life own risk 2012
Balance as at 1 January	400	445
Discounts given in the financial year	(11)	1
Amortisation	(45)	(46)
Other movements	-	-
Balance as at 31 December	**344**	**400**

c. Statement of change in provision for profit sharing, bonuses and discounts

	Life own risk	
In € millions	**2013**	2012
Balance as at 1 January	115	132
Portfolio reclassification	(9)	-
Profit sharing, bonuses and discounts granted in the financial year	(16)	(17)
Balance as at 31 December	**90**	**115**

d. Statement of change in technical provisions for insurance on behalf of policyholders

In € millions	**2013**	2012
Balance as at 1 January	13,584	12,887
Portfolio reclassification	(646)	-
Premiums received	1,096	1,255
Interest added	420	553
Benefits paid	(1,398)	(1,343)
Exchange rate / valuation differences	553	685
Technical result	(25)	40
Release of expense loading	(116)	(139)
Other movements	11	(354)
Balance as at 31 December	**13,479**	**13,584**

24.12 Liabilities related to collateral and receivables

Specification liabilities related to collateral and receivables

In € millions	**2013**	2012
Non-current debt	4,725	3,861
Other	42	52
Total	**4,767**	**3,913**

Time to maturity liabilities related to collateral and receivables

In € millions	**2013**	2012
< 3 months	-	304
3 months - 1 year	1	1
1 - 5 year	2	374
> 5 year	4,764	3,234
Total	**4,767**	**3,913**

24.13 Amounts due to banks

Time to maturity amounts due to banks

In € millions	2013	2012
< 1 year	1,942	2,994
1 - 5 year	-	-
> 5 year	-	-
Total	**1,942**	**2,994**

24.14 Other liabilities

Specification other liabilities

In € millions	2013	2012
Debts to subsidiaries	6	5
Debts to associated companies	-	699
Debts in relation to direct insurance	546	564
Debts to reinsurers	79	52
Other liabilities	753	752
Total	**1,384**	**2,072**

An amount of € 44 million (2012: nil) classified as other liabilities relates to the deferred coupon payments on the subordinated bonds that have been issued by SRLEV in 2011. For more information on deferred coupon payments, see section 22.13.1 Subordinated bonds.

The debts to subsidiaries pay the 1 month Euribor-interest.

24.15 Off balance sheet commitments

For information about the off balance sheet commitments please refer to section 22.19 Off balance commitments of the consolidated financial statements.

24.16 Related parties

Positions and transactions between SRLEV NV and subsidiaries

In € millions	2013	2012
Positions		
Loans and advances	688	1,813
Receivables	41	100
Accrued interest	2	12
Other liabilities	6	5
Transactions		
Mutation loans and advances	(1,125)	(50)
Mutation receivables	(59)	15
Mutation accrued interest	(10)	8
Mutation liabilities	1	(20)
Interest	14	47
Other expenses	1	1

For more information about the related parties please refer to section 22.20 Related parties of the consolidated financial statements.

24.17 Audit fees

Based on Book 2, Section 382A (3) of the Dutch Civil Code, reference is made to the Financial Statements 2013 of SNS REAAL NV for an overview of the fees charged by the audit firm KPMG Accountants NV and the other KPMG companies in the financial year.

Alkmaar, 15 April 2014

Supervisory Board
J.J. Nooitgedagt (chairman)
C.M. Insinger
M.R. Milz
J.A. Nijhuis
J.A. Nijssen
J.C.M. van Rutte
L.J. Wijngaarden

Management Board
W.H. Steenpoorte (Chairman)
M.B.G.M. Oostendorp
D.J. Okhuijsen

25 Overview subsidiaries

An overview is provided below of the subsidiaries of SRLEV NV. Participation in the subsidiaries is 100% except the 50% participation of REAAL Venture Capital NV.

Overview subsidiaries

Empresa BV	Zeist
Foresta Investerings Maatschappij NV	's-Hertogenbosch
GVR500 Building BV	Utrecht
GVR500 Parking BV	Utrecht
NV Pensioen ESC	Curaçao
Princenhof Staete Driebergen BV	Zeist
REAAL De Ruyterkade BV	Utrecht
REAAL Hypotheken BV	Utrecht
REAAL Kantoren I BV	Utrecht
REAAL Landbouw I BV	Utrecht
REAAL Landbouw II BV	Utrecht
REAAL Landbouw III BV	Utrecht
REAAL Venture Capital NV	Utrecht
REAAL Winkels I BV	Utrecht
REAAL Winkels II BV	Utrecht
REAAL Wognumsebuurt BV	Utrecht
REAAL Woningen I BV	Utrecht
Zwitserleven RM Beleggingen BV	Alkmaar

Other capital interests

For information on other capital interests, reference is made to the notes to the consolidated balance sheet in section 22.3 Investments in associates.

26 Other information

26.1 Provision regarding profit or loss appropriation

Result 2013: € 416 million loss.

26.1.1 Provisions of the Articles of Association regarding profit or loss appropriation for shares

Article 36

1. The net result shall be at the free disposal of the General Meeting of Shareholders.

2. If the General Meeting of Shareholders does not resolve to distribute profit of such financial year, that profit will be added to the general reserves.

3. The company may only make distributions to shareholders and the other persons entitled to the distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves which are to be maintained pursuant to the law.

4. Distribution of profits shall take place following the adoption of the financial statements from which it appears that such distribution is allowed.

Article 37

1. Dividends shall be due and payable fourteen days after having been declared, unless upon the proposal of the general management, the General Meeting of Shareholders determines another date thereof.

2. Dividends that have not been collected within five years after they became due and payable shall revert to the company.

3. The General Meeting of Shareholders may resolve that dividends shall be distributed in whole or in part in a form other than cash.

4. If the General Meeting of Shareholders so determines on the proposal of the general management, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of what is provided in section 2:105, subsection 4, Civil Code.

5. A loss may only be offset against reserves maintained pursuant to the law to the extent permitted by law.

26.1.2 Profit or loss appropriation

The loss for the financial year 2013 is debited to the profit reserves of SRLEV NV.

26.2 Independent auditor's report

To: the Shareholder of SRLEV N.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of SRLEV N.V., Alkmaar. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2013, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

The Mangement Board's responsibility

The Mangement Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the annual report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Mangement Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Mangement Board, as well as evaluating the overall presentation of the financial statements.

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 financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of SRLEV 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 Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of SRLEV 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 Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the annual report, 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 annual report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 15 April 2014
KPMG Accountants N.V.

F.M. van den Wildenberg RA